HAS MARKET SEEN BOTTOM?

The MAGAZINE of WALL STREET

and BUSINESS ANALYST

JULY 5, 1947

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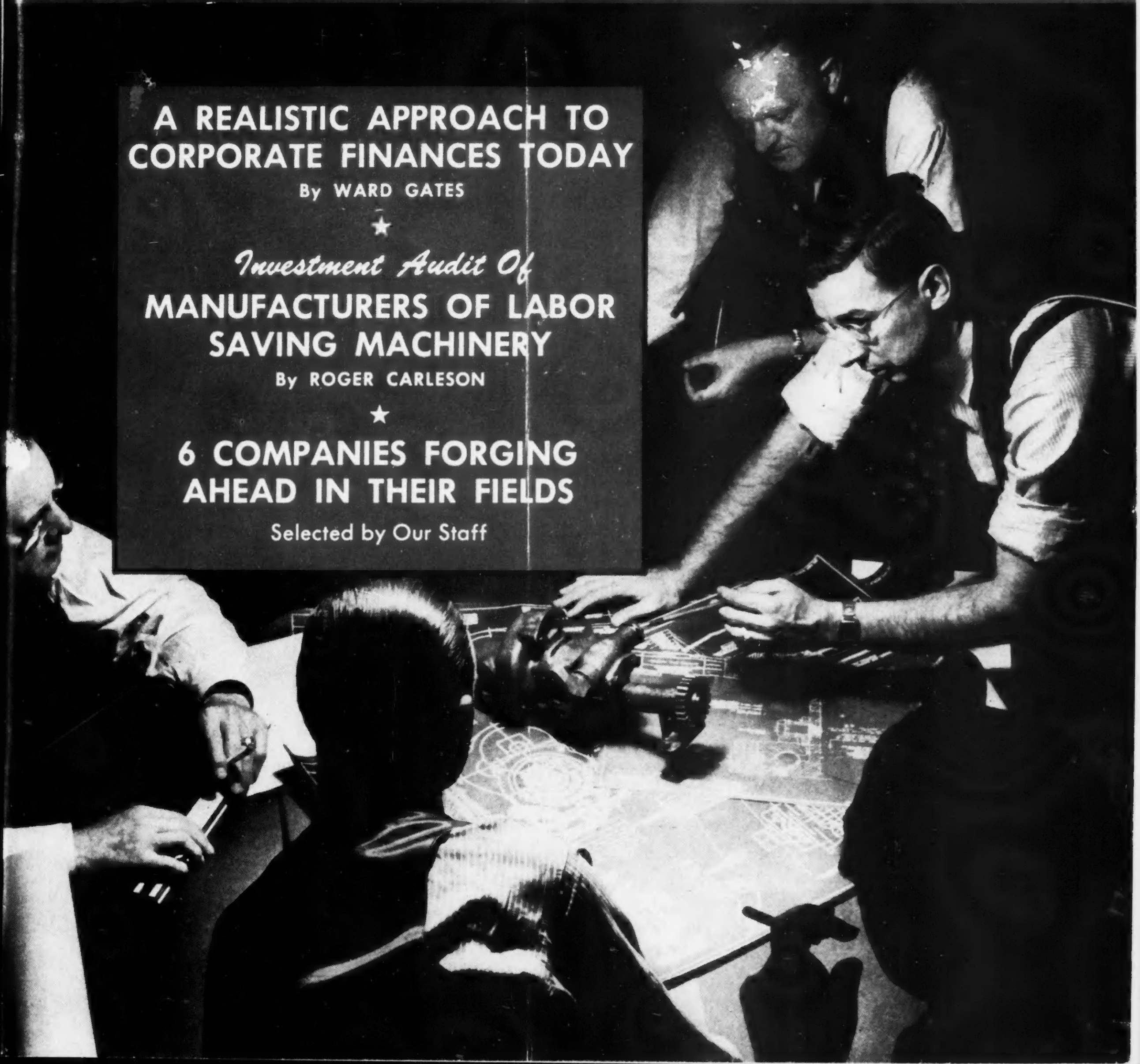
A REALISTIC APPROACH TO CORPORATE FINANCES TODAY
By WARD GATES

★

Investment Audit Of
MANUFACTURERS OF LABOR SAVING MACHINERY
By ROGER CARLESON

★

6 COMPANIES FORGING AHEAD IN THEIR FIELDS
Selected by Our Staff



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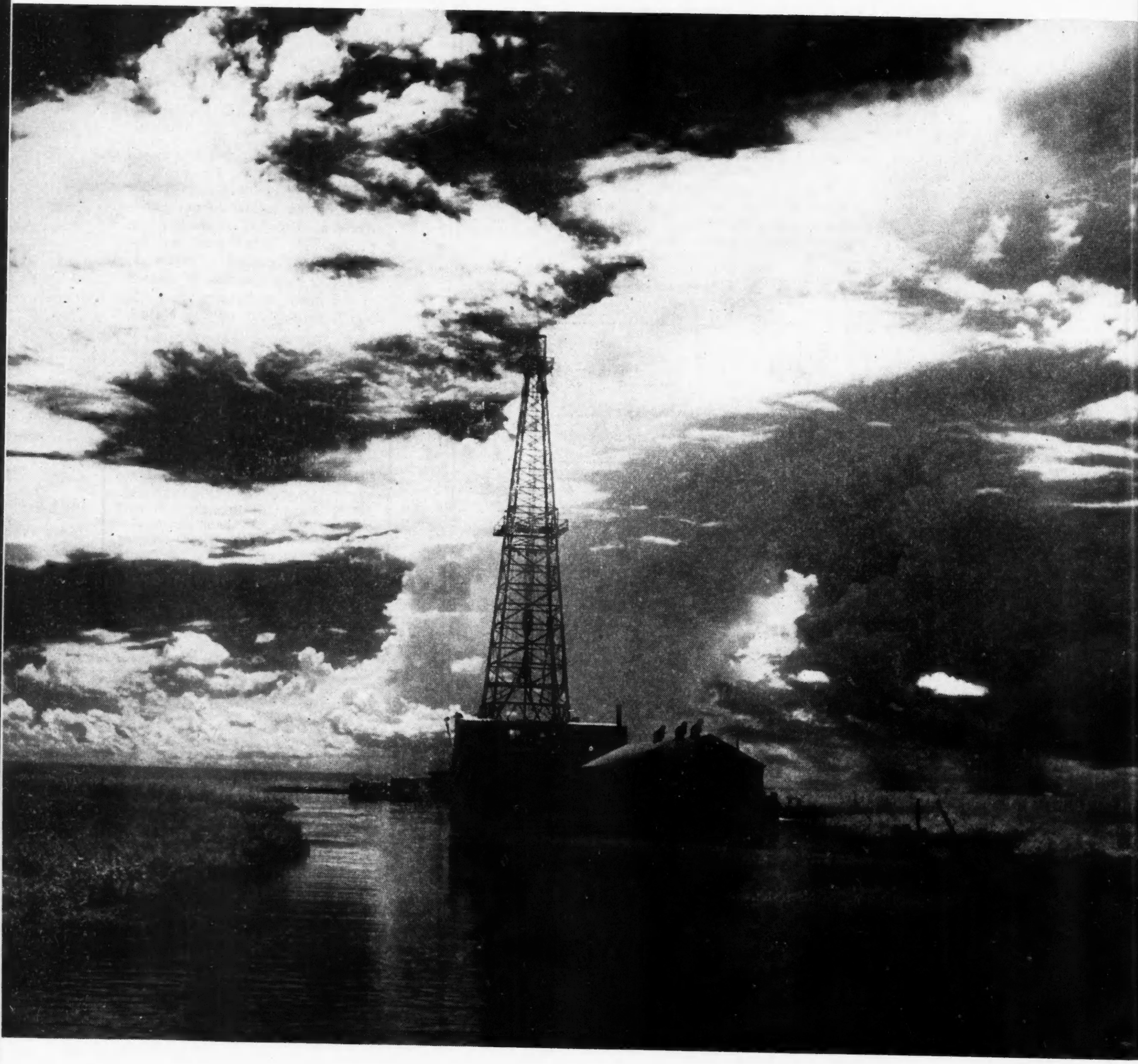
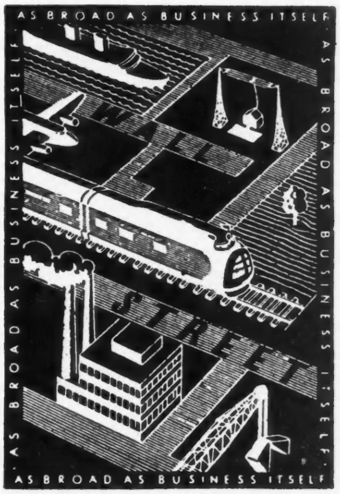
Oil Demand Soars . . . .



Deep underground below continents and oceans, are the yet undiscovered vast pools of crude oil upon which the future of civilization must depend, at least until the Atomic Age becomes realistic. The recent decision of the Supreme Court allotting title to the Government, rather than to the States, of all oil rights beyond low tide and the three mile limit, puts Washington now in a position to stimulate new discoveries on all of our ocean fronts to meet the vast increase in demand. Marine drilling is certain to expand.

THE MAGAZINE OF WALL STREET

C. G. Wyckoff, *Publisher*



The Trend of Events

LABOR LAW . . . Passage of labor legislation in its latest form, epochal in significance though it is, is but the first important step of four, or even five. After months of considered study, Congress has enacted a comprehensive measure that in all sincerity they consider a new "Bill of Rights" for the American worker. Though necessarily complex, this document clarifies as well as possible the various aims of its sponsors and proponents, the elected representatives of the people. Next problem will be to assure its administration along the lines so clearly set forth. Although both Mr. Truman and the National Labor Relations Board have publicly announced their intention of carrying out all the provisions of the Law to the best of their ability, their strong opposition to the measure before passage raises natural doubts as to just how they will function. The President's forthcoming nominees for two additional posts on NLRB will be scanned without reserve by the Senate, before confirmation. Just how industry will act in adjusting its labor relations under the new legal set-up, also remains to be seen. It is to be hoped that in achieving a better balance for bargaining, over zealous managements here and there will restrain all inclinations to take advantage of technicalities that might arouse prolonged strife.

While sporadic outbursts of antagonism to the new law, such as the current shut downs in the coal fields, will perhaps preclude whole hearted acceptance of the situation by the rank and file of labor generally, it is probably true that the majority of union workmen, or a great portion of them, secretly approve the new limitations placed upon their leaders. Not until the election in 1948, however, can this surmise be thoroughly proved or exploded. As for the Union leaders themselves, it looks at the moment as if the conservative American Federation of Labor would seize upon politics and the courts as the best weapons in the coming struggle to restore their former monopoly and power. President Green of A. F. of L. has already turned thumbs down on ill-advised proposals for a general strike, but has promised all out steps to unseat every legislator who voted for the new Act. Until leaders of the CIO and their henchmen come out of a current huddle to determine their program, just what may be expected from this Communist influenced labor group must remain obscure. Quite clearly, though, the immediate course likely to be followed by all the Union leaders will be to defy many of the provisions of the Law, for the express purpose of challenging its constitutionality in the courts. As widespread adoption of these tactics is to be expected, before very long the courts will probably be jammed with suits and counter suits of this kind. Months and perhaps several years may elapse before the entire issue reaches the Supreme Court, or calls for a decision upon its numerous individual phases. All in all, it can hardly be hoped that passage of the Act will be followed by a period of tranquility on the labor front, although the stability of the economy may be enhanced.

Business, Financial *and* Investment Counselors : : 1907 — *"Over Forty Years of Service"* — 1947

WOOL TARIFFS . . . Ever since the Dingley Bill became law nearly half a century ago, politicians have periodically pushed domestic wool growers to the front as favorites to support at all costs. This minor segment of the economy, for some reason, seems to have built up a surprising influence in Congressional decisions that affected their special industry. This is shown by the recent hasty passage by Congress, despite last minute presentation in an overcrowded schedule, of a bill that would authorize and in a way obligate the President to raise the tariff upon wool, if imports in any way threatened the current domestic price structure. To Mr. Truman's credit, it must be admitted, he saw fit to return this bill to Congress without his signature, although his action placed him out on a limb in this respect for the third time within ten days. Most assuredly, final passage of the measure would have been contrary to the aims of our newly formed foreign policy, and would have caused widespread confusion in the United Nations conference, now struggling to establish broadened trade relations at Geneva. Such a move, as Mr. Truman rightly protested, would be a tragic mistake. In this forthright stand, the President was strongly backed by Secretary Marshall and Under Secretary of State Clayton. We are confident that all clear thinking citizens, too, will support his decision. It seems likely that Congress will at once pass a substitute measure more acceptable to the President, yet adequate to reassure the wool growers against undue foreign competition, through Federal subsidies or some such device. When the 81st session of Congress convenes in January, the entire subject of Federal price supports will have to be thoroughly explored. For whether the tax payer should be forced to bolster the profits of any group in the economy, rather than allowing prices to be determined by supply and demand factors has come to the front as a number one subject. As wool, for example, is already in over supply throughout the world, and is needed by every citizen for some use, it is a serious matter when the Government, through the tax collector, forces them to pay a cent more than is basically necessary.

SOVIET GLACIER . . . When Mr. Eric Johnston recently termed the Russian penetration of Western civilization as the onward creeping of an ice age, his simile was particularly apt. Physically the moves planned and carried out by the Reds rely upon irresistible bulk and weight, designed to crush and swallow, inch by inch, all nations in the path. Morally and spiritually, the program is as devoid of sensitivity as frozen Siberia itself. Human life and happiness, both within and without Russia, are considered as expendable as snowflakes by the Communists. In fact it is only through disintegration of these factors that the Soviets plan to bring the entire civilized world to a state of slavery, with survival dependent upon abject surrender to a heartless group in the Kremlin.

Regardless of what the rest of the world may think, the Russians have openly disclosed their evil program by events in Eastern Europe, resistance to any constructive progress in the United Nations, and now a refusal by Molotov to accept Secretary Marshall's plan for over-all economic aid for the recovery of war stricken Europe. In advance it might have been expected that the Kremlin would take just such a stand, for the last thing in the world that the Soviets desire is to assure self sufficiency and reborn confidence for European countries still out from under her thumb. The timetable of a glacier is necessarily slow, and the Reds are adept in removing all potential barriers to its inexorable advance. But now that the Russians have clearly showed their hands and unmasked their relentless strategy, it is clear that Western civilization must rally to save the day with its own sound plans, with or without compliance from the Kremlin. That this is possible of achievement, after a thorough study of the economic needs of all countries across the Atlantic, and the vast resources of the United States, is a heartening prospect, though in the process the two-world cleavage assumes more definite shape. The unilateral studies and agreements with individual European nations proposed by Mr. Molotov are obviously only a ruse to prolong and confuse any recovery program. As the bulk of all aid, whether financial or in food and goods, must come from America, and strong leaders in England and France are in accord with the Marshall program, we have the whip hand in the situation and if necessary must apply the lash where it is well deserved. Two and a half years after V-J Day, economic misery threatens the world, and mainly because of Russian treachery and scheming. Now that the only sensible way out of the mess has evolved, all Americans must stand firmly behind Secretary Marshall in his farsighted program, come what may.

DUAL DIVIDEND TAX . . . Had the 80th Congress seen fit to establish relief for shareholders long burdened by income taxes at both the corporate and personal level, it would have been a most constructive move. Additionally, the obvious injustice of the dual tax in its present form most likely would have aroused Presidential approval of a bill calling for its elimination. Despite its transcendent importance, this unwise method of swelling Treasury revenues by taxing profits twice, has been bundled up to await final consideration when the entire tax structure gets its overhauling. Meanwhile many hard-pressed citizens will have to struggle along as best they can with the knowledge that Washington has taken a 38% slice of corporate profits besides levying the usual toll from dividends included on their own income tax sheets. It would seem as if this illogical procedure had been going on about long enough.

Curiously enough, this subject can hardly be called controversial, for opinion seems to be well nigh unanimous that a corrective is badly needed. Not only the Federal authorities, but numerous Associations and economics students, seem to heartily agree on the end results that are desirable. But as always happens, debate runs high over the details of this or that proposal. Perhaps especially interesting in these discussions is the theory that by lopping off one of the taxes, the Treasury would probably suffer no net loss in revenues. There probably is a sound basis for this surmise, because with additional funds at the disposal of the company or shareholder, risk taking and enterprise would be stimulated significantly. Most of the tax reformers *(Please turn to page 408)*

As I See It!

BY ARTHUR G. GAINES

BUSINESS AS USUAL

"BUSINESS as Usual" was a phrase which aroused indignation but little remedial action during the first years of the war when we were aiding Britain and China — but were also selling our supplies to Japan and Germany, who loomed up clearly as potential enemies.

Today we find our Office of International Trade telling Congress that "there is nothing unusual" about the shipments of American oil to Russia which in the first four months of 1947 amounted to 168,306 barrels. The tart rejoinder of Congressman Paul Shafer of Michigan hit the nail on the head; "There was nothing unusual about sending scrap iron and oil to Japan in the 1930's either."

Can any American see the logic in sending supplies to Russia which may be used in spreading its philosophy, at a time when our nation is embarked upon a program of spending hundreds of millions of dollars to halt the spread of communism in Europe? The Government has acted with commendable promptness in reimposing war-time controls on exports of petroleum products effective June 30, 1947. While controls will not halt all shipments of oil to the Soviet Union, they will make them subject to the discretion of the Commerce Department and will require shippers to obtain licenses for export of all kinds of petroleum products.

Shipments were under private contract between United States producers and Amtorg, the Soviet trade agency. Congressman Dewey Short of Missouri said that our producers "prefer" to sell abroad because of higher prices. Knowing stockholders, as we do, we can express a qualified opinion that American shareholders do not want to see companies, of which they are part owners, trying to squeeze a few extra dollars out of shipping our supplies to the Soviet, to be put to their own uses which seem directly opposed to those of our State Department. As far as we have ascertained, trade quarters in New York Harbor and adjacent areas are quite satisfied to have petroleum controls reinstated. Existing contracts will not be affected and, of course, petroleum seriously needed to help reconstruct Europe will continue to be shipped there.

"LUBRICATING COMMUNISM"

Apologies to Duffy in the Baltimore Sun

An important side issue has arisen on this problem of Russian oil shipments which should receive a thorough airing and pertinent action. Chairman Welchel of the House Merchant Marine Committee has informed Congress that the oil is being hauled to Russia in American tankers which are part of an American lease-lend fleet of 94 vessels which was turned over to Russia "without payment" during the war. Russia has failed to pay for or return them. The House Committee should investigate this matter so we can get back these valuable ships to service our tremendous export commitments which are part of our new foreign policy to support free enterprise — instead of having them used for Russian purposes.

Admittedly, the amount of petroleum going to Russia is not great but this leak in our supplies should be stopped even though it will not solve the oil shortage our country is facing now. In past issues of the Magazine of Wall Street we have pointed out that the rapid long-term growth in consumption of gasoline and domestic fuel oil is continuing. Nearly 100,000 new automobiles are taking to the road every week. More and more homes are being shifted to oil heat, virtually every new locomotive being built today is diesel-powered, as are Navy and Merchant ships. Synthetic rubber and chemical production now use vast amounts of petroleum. These demands will total a daily average of 5,642,000 barrels in 1947. There is a real pinch in supplies and most new refining plants under construction will not be in full operation for a year or more. It is reported that some refineries have actually shifted to coal furnaces to save the oil used for their own fuel.

The Midwest appears to be the most troubled area as far as gasoline needs are concerned. This is due to heavy farm consumption, increased general use and the inability to expand crude oil facilities in this area. In time, pipe lines will solve the problem but not this year. Standard Oil of Indiana has been forced to inaugurate a summer gasoline rationing system in 12 of the 15 states served in the Midwest. Other major midwest companies have not yet announced allocation plans (*Please turn to page* 406)

How Close to the Bottom?

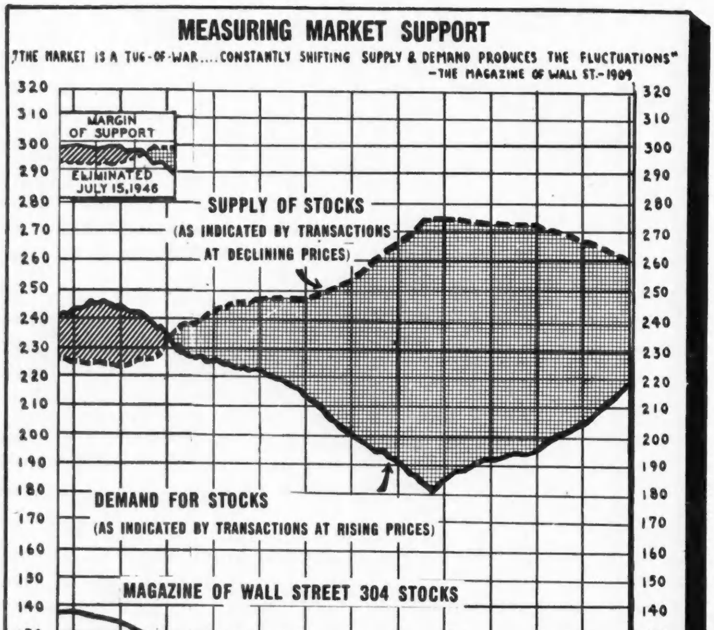
A further summer rally may well develop, perhaps with intervening correction. But it is improbable that the last downside test has been seen. Important factors for sustained market rise are absent, even should business recession be deferred beyond previous expectations. Hence there is no change in our previous conservative policy.

By A. T. MILLER

There has been no significant change in the position of the market since our previous analysis a fortnight ago. During the first week of this period, the week ended June 20, there was a modest extension of the recovery from the May low. There was a sharp one-day sell-off early last week, following close upon final enactment of the labor law and the simultaneous beginning of the coal strike. This appeared to be mainly of professional character, and it did not bring in general selling. As a result prices firmed up again thereafter, but ended the week a little under the previous rally highs in the averages, with trading dull.

Our Support Indicator, charted on this page, remains thus far in a negative position; which is to say that an improvement in the market sufficient to rally the Dow-Jones industrial average by around 15 points from its last low has not sufficed to close the deficit gap and thus signal the probabilty of an important further rise. There is not much point in trying to anticipate what this indicator may do in the period just ahead, one merit of it being that it is a device which is unswayed by opinions or emotions. However, a few observations are worth while.

If one assumes that the summer rise is unlikely to extend the year's range to date—the high was about 185 in the Dow-Jones industrial average last February—then should the Support Indicator give a buy signal on a further rally, without an intervening corrective decline, it would do so rather high in the year's range. That would be unusual. Much more often than not, its buying signals come in a relatively quiet market before the averages have advanced much. If this tendency holds true, the next buy signal would be under a different market condition than now exists, presumably at lower prices. An "important" advance from the present level would have to run to a new high for the year, raising a question of the major market trend. We cannot say that a new bull market, dating from the May low, is impossible; but the chances so far as they can be prudently judged right now, appear to be against it.

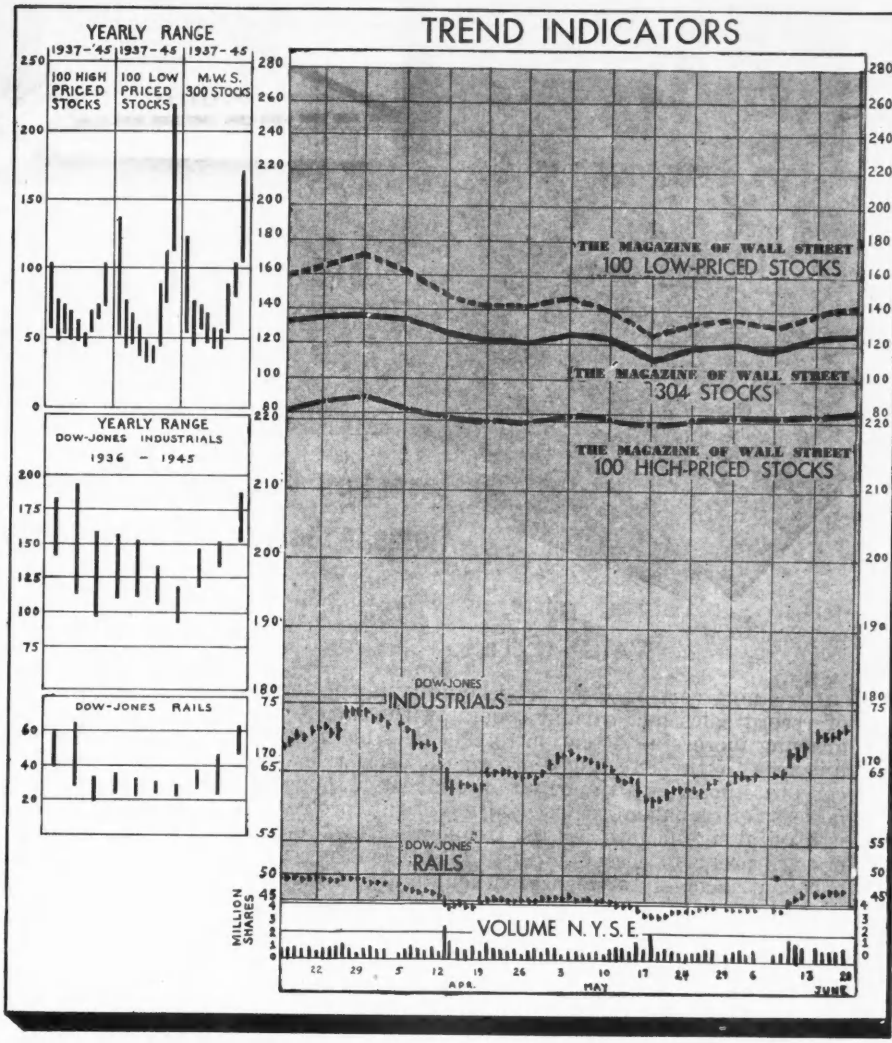


Speculative Demand Still Light

A minority of stocks, running pretty heavily to "old-line" leaders, have provided most of the steam behind the rally so far. This is reflected in the marked difference of position as between the Dow industrial average and more representative indexes. Thus, at recent levels, the 30 Dow issues had recovered about 68% of their decline from the February intermediate top to the May low, as compared with about 50% for our index of 100 high-price stocks, roughly 40% for the composite index of 304 stocks and only slightly over 30% for the index of 100 low-price stocks. To the extent that general sentiment has improved, it is much more manifest in investment than in speculation.

The market faces two immediate difficulties. One is that coal mining will not be resumed, in the absence of a contract meanwhile, on expiration of the 10-day miners' vacation. Since this was preceded by several days of wildcat strike, enough coal production will be lost, at best, to reduce operations

in the steel, automobile and various other industries. If the coal stoppage foots up to four or six weeks — most opinions put that as about the maximum — the result will be less than calamitous for the country but certainly nothing to cheer about. The other difficulty is that the coal situation arises just when the market, after five weeks of advance, was technically ready for some correction anyway, although there has been practically no retreat up to this writing. The averages have risen about as far, without more than nominal correction, as they were able to do on either of the two phases of the intermediate rise from late November to early February.



The alternatives for the period just ahead would seem to be (1) a further summer rise, without any correction other than a phase of sidewise drift, or virtually so; (2) a reaction of some proportions, but stopping well above the May lows and followed by some extension of the summer recovery; (3) a topping out of the whole move, at about the recent highs, with a downswing eventually testing, or breaking, the May lows. There can, of course, be no certainty which it will be. On the basis of the tentative evidence, looking a month to six weeks ahead, the second alternative would seem the most probable, the third one least so.

Working in behalf of the market is a substantial improvement in business sentiment. This is based on the fact that general economic recession, long talked about, has still not begun; on the continuing vitality of the durable-goods industries, with the important exception of building; and on revival in new orders in a few of the light lines in which curtailment had gone further than prevailing consumer demand warranted.

What Would A Bull Market Feed On?

Against all of this are certain basic factors which appear to have deflationary implications, whether or not business runs on high momentum for a time longer. They include the Government's drain on the public's income, as measured by the cash surplus, at a recent rate of about $15 billion a year; the fact that, due to high prices, the buying power of monthly national income has been trending down for many months. These influences have been offset, up to now, by extraordinarily high exports and equally extraordinary "capital formation" in the form of business spending for inventory and for plant expansion. These abnormal supports are bound to weaken, although just how much so and how quickly may be debatable. Regarding exports, the odds are against a workable "Marshall program," for obviously the Russians do not want, and will do everything they can to hinder, economic reconstruction of Western Europe under existing regimes.

If recession is long deferred, while accumulated demands are filled, a depression probably would be more likely. Either way, total earnings seem to be on a plateau from which the next change presumptively is down. If that change is further ahead than investors thought a few months ago, the inclination is to put a higher market capitalization on current earnings. But this kind of adjustment, hinging on confidence, has its limits. It is altogether different from an upward trend of earnings, which is the main stimulus in normal bull markets; or from expectation of a large gain in earnings at some future time, which was the mainstay or our last bull market through much of the war period.

The best contingency, in our view, is a broad trading-swing market, in which investors will put a higher valuation on largely *(Please turn to page 408)*

A Realistic Approach to CORPORATE FINANCES Today

Inventory valuations, depreciation reserves and other items in the balance sheet require special analysis today

By
WARD GATES

Declining corporate financial liquidity in the face of record sales and earnings, notably the latter, is drawing increasing attention to the investment significance of the effect of the general price rise on corporate finances. Primarily to the investor, though no less for management, recognition of this problem is of vital significance. All too frequently, stockholders are prone to accept at their face value current excellent income statements without much thought given to the distortions that may have their cause in the strong upthrust of commodity prices since the latter part of 1946. Yet careful analysis makes it abundantly clear that today's price structure ultimately will have as profound an effect on corporate finances as it now has on the wage dollar and on general purchasing power. The careful investor will want to scrutinize the chain reaction of the price boom not only on corporate income but also on future dividends, lest he allow himself to be misled by the avalanche of excellent earnings statements to which he has been treated in recent months

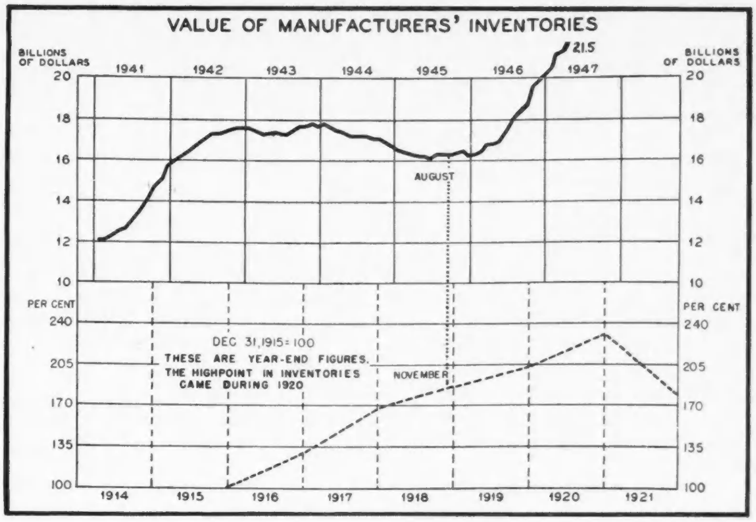
While these earnings, as reported, are real enough, in many cases it cannot be said that they represent "true" earnings in the sense that their continuation can be reasonably expected. Far from it. For frequently they hide the fact that they have been due in part at least to windfall gains from the sale of low-cost inventories at current high prices, just as current asset valuation has been tremendously boosted by the rise in the valuation of inventories at hand. Such overstatement of earnings is apt to lead to disappointing earnings comparisons later on, for obviously a company—to continue in business—must invest in new inventories at prevailing higher prices which no longer will permit the former abnormally high profit margins. In other words, earnings based on inventory windfalls are likely to prove transitory, highly unstable and subject to wide fluctuations. They are neither a true picture of earning power nor, as organized labor would have it, a reliable basis for wage demands. Instead they should be viewed as strictly non-recurrent, a distortion of earning power, the true nature of which will inevitably come to light when prices decline or when inventories must be replenished with high-cost materials or merchandise.

"Lifo" Cannot Eliminate Overstated Earnings

Management, by and large, has been careful in pointing this out to stockholders when submitting income reports. To cite a typical example: Cannon Mills, one of the oldest textile concerns with above average stability of earnings in an otherwise highly cyclical field, for 1946 reported net earnings of $18.38 per share as against $3.24 netted in 1945. Apart from substantially higher volume and lower taxes, this sharp gain in earnings was due importantly to the use of low-cost inventories permitting large inventory profits. Needless to say, profits could hardly be expected to continue at the 1946 rate, thus the company in its annual report stated that "during 1946, a portion of cotton and finished goods carried on "lifo basis" was liquidated, and since valuation of such inventories was considerably lower than current replacement costs, the net income for the year is materially higher than it would have been, had sales been made from current purchases at current manufacturing costs."

It can be seen from the above that overstatement of earnings due to inventory windfalls can not always be reduced or eliminated by the "lifo" (last in—first out) method of accounting; this is particularly true where inventories have been depleted to such an extent that low-cost materials have been sold in finished form at the prevailing higher prices. The overstatement will be all the more drastic in cases where ordinary accounting practice rather than the "lifo" method is employed. Subsequent earnings, reflecting the sale of goods acquired and processed at current prices, will fall far short of former experience. Investors therefore will be well advised to look carefully into the real source of current high earnings; frequently they will find that they cannot be duplicated or even approached, even at a continued high level of operations, in the future

when sales have to come out of inventories acquired at current prices.



Depreciation Reserves Often Inadequate

Another and important consideration is the adequacy of reserves charged for depreciation of plant and equipment. This item, too, can lead to a marked overstatement of earnings, viewed from the standpoint of conservative accounting practice. Replacement costs at today's high prices offer a serious problem. Normally the basis for calculating depreciation charges is original cost and expected life of fixed assets. In this manner a company creates reserves that ultimately will be sufficient to replace fixed assets as they wear out or become obsolete. But today, with replacement costs substantially higher and likely to remain so—compared with prewar—former depreciation ratios are hardly adequate nor are the depreciation reserves created over the years sufficient to meet the eventual outlays for replacement, if and when they become necessary Actually, depreciation allowances made in the past may prove wholly inadequate, and to that extent earnings as earlier reported will prove distinctly overstated.

Management is quite aware of this fact. Investors, too, will have to pay closer attention to this factor if they want to avoid disappointments later on. The simple fact is that unless the higher replacement costs are recognized by increased charges for depreciation, or by special reserves created from current income, they will have to come out of future dividends!

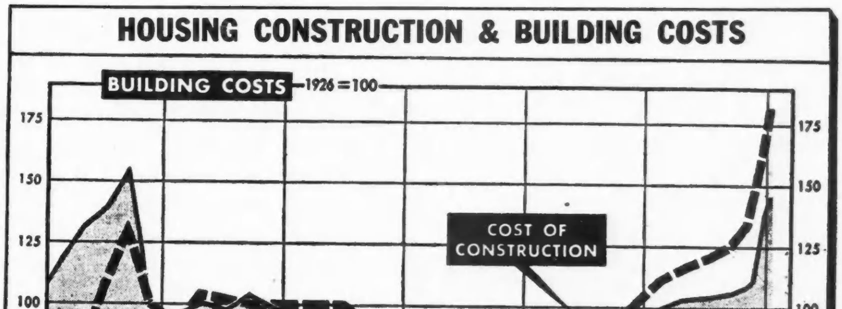
A number of leading companies have been taking steps to cope with this situation. Thus duPont is currently creating a special reserve for which it has set aside $5.2 million from first quarter earnings, equivalent to 38c a common share, in recognition of the increased cost of plant construction. U. S. Steel Corporation, from first quarter earnings, has set aside $15 million for the same purpose, after explaining in its annual report "than construction costs have generally increased by at least two-thirds over their prewar levels. Replacement of the corporation's tools of production as they wear out, become outmoded or are used up will cost much more than did the existing tools of production unless wages and prices in general move downward substantially toward prewar levels. The purchase of such tools at advanced prices cannot be financed, without borrowing, unless profits attain a better relationship to the volume of business than has been previously experienced."

Larger Invested Capital Needed

At Socony-Vacuum annual meeting, the president in discussing this problem pointed out that "because of the higher costs of labor and materials, new plants require at least one-half again as much capital as they did before the war and so will continue to draw heavily on the company's resources."

It may be some time until the investor will become fully aware of the impact of the present high cost structure on the **investor dollar,** but implications are obvious. Depreciation charges cannot be safely based on prewar costs (which will never return), as is still being done in a good many cases. To the extent that the old policy continues, current earnings are overstated and care is required in appraising the stocks of companies faced with the necessity of large plant replacements or additions during coming years.

A word of warning in this respect is already heard from the oil industry, currently one of the star performers from an earnings standpoint, Chairman Wilson of the Standard Oil Company of Indiana recently brought the problem right down to the pocketbook level of the investor when he emphasized that rising costs necessitate lower taxes and higher



earnings **without corresponding increases in dividends** if the oil industry is to carry out costly replacements and additions to meet its growth needs. A large slice of the funds required for the purpose must come from retained earnings with the inevitable restrictive effect on dividends, for corporations hesitate to borrow, or expand capital, beyond a certain point. What is true of the oil industry applies with equal force to other industries. Fact is that few could duplicate their properties for less than twice their book value, and in many cases the figure would be considerably higher. Some industries, rather than take the risk involved, may rather forego or curtail expansion. A trend towards curtailment has already set in. Curtailment, deferment or suspension of plant expansion has been reported by such leading concerns as Dow Chemicals, Hercules Powder, American Cynamid and a good many others. As a natural corollary, where such curtailment or deferment occurred, future earnings will not be as large as projected.

Richest Enterprises Borrow

Where expansion continues in line with plans previously worked out, other problems arise. Many of the country's largest and "richest" enterprises have had to borrow heavily to finance them, or to undertake improvements; others to obtain additional working capital to carry inventories and accounts receivable at the prevailing volume of business and price levels. Companies which in recent months have added to their financial resources by various means include such leading concerns as duPont, General Motors, American Cynamid and General Electric; the latter, to handle a vastly increased volume of business, last year borrowed $200 million by sale of 20-year serial notes. Johns-Manville is the latest to join the list, borrowing $5 million with option on $20 million more, to finance higher-priced business. The case of the latter company is rather typical of what has occurred, and is occurring, with a good many others. While its working capital at the end of 1946 was little changed from 1945, sharply higher accounts receivable and a sizable inventory increase absorbed much of available cash, reducing cash holdings from $12.04 million to $6.68 million which in turn called for replenishment of cash resources. Without it, the company would have been in a position where it had, on basis of current sales volume, to do business with only about $7 cash for each $100 of sales, where against the ratio in 1945 was $14, or exactly double.

The need for greater working capital is apparent on all sides and this may, in considerable degree, influence future dividend policies. Many corporations, despite excellent earnings, are reluctanct to raise dividends pending determination of capital needs to carry on business at today's inflated price levels. Business in general has invested the largest annual percentage of retained earnings in history, has drawn upon its huge wartime accumulation of cash and Government securities, has borrowed from banks and floated new securities issues. The heavy use of external financing at a time when earnings and liquid assets were at record levels is typical of a period of rapidly expanding business activity but it is equally, if not more so, expressive of the impact of the sharp rise of commodity prices on corporate finances. The greater cost of doing business explains to a large extent where corporate profits go; for the investor it is an important story.

Current Assets and Liabilities of All U. S. Corporations, Excluding Banks and Insurance Companies, as Estimated by the Securities and Exchange Commission

(In Billions of Dollars)

	December 31, 1945	1946	Change
CURRENT ASSETS			
Cash on hand and in banks	$22.2	$21.8	— .4
U. S. Government securities	21.2	15.0	—6.2
Receivables from U. S. Government	2.7	.7	—2.0
Other notes and accounts receivable	22.3	29.9	+7.6
Inventories	26.7	35.3	+8.6
Other current assets	2.4	1.7	— .7
Total current assets	97.5	104.5	+7.0
CURRENT LIABILITIES			
U. S. Govt. advances and prepayments	0.9	0.1	— .8
Other notes and accounts payable	24.9	30.8	+5.9
Federal income tax liabilities	11.2	8.5	—2.7
Other current liabilities	7.9	7.9	....
Total current liabilities	44.9	47.2	+2.3
Net Working Capital	52.6	57.3	+4.7
Ratio: Current Assets to Current Liabilities	2.17	2.21	

SEC's Conclusions

The story is highlighted in a recent study by the SEC in which it is stated that working capital of American corporatoins at the end of last year was not in as liquid a form as in the preceding year. Working capital of all corporations, according to the SEC compilation presented in the accompanying tabulation, increased by almost $5 billion to a new high of over $57 billion. Corporate earnings were estimated at $12 billion of which about $5 billion were paid out in dividends and $7 billion retained in the business. By far the largest change in any of the items of current assets and liabilities was the record $8.6 billion increase in inventories to a level of $35.3 billion. This increase reflected to a considerable extent the substantial rise in the prices paid for goods included in inventories. Also during the year, there was a large expansion of notes and accounts receivable, amounting to $7.6 billion to a level of $29.9 billion. Partly offsetting these extremely large increases, corporations liquidated approximately $6.2 billion of U. S. Government securities, reducing their holdings to $15 billion, about 30% below the amount held at the beginning of 1946. Corporate holdings of cash and deposits at the end of 1946 amounted to $21.8 billion, a drop of about $400 million from the preceding year. Thus the ratio of corporate liquid funds in the form of cash and Government securities to sales, a rough measure of liquidity, declined materially during 1946 though it is still above prewar levels.

Partly offsetting the growth in receivables was the $5.9 billion rise in other notes and accounts payable to a total of $30.8 billion. Short-term bank loans accounted for approximately one-third of the increase, indicative of the need to finance new capital requirements. A record increase occurred in the net property account amounting to $5 billion. On the other side of the balance sheet, there was a $3.2 billion increase in long term debt and in equity securities. Approximately $700 million of this increase was in the form of corporate *(Please turn to page 404)*

CONOMIC REVOLUTION in Our Southeastern States

By

JOHN D. C. WELDON

Photos by Ewing Galloway

To traditional cotton and tobacco crops the South has added development of mining, lumber, paper and pulp, new manufacturing, transportation and service activities

A survey of conditions in the South today reveals an expanded scope and high tempo of economic activity that afford almost bewildering contrast with conditions before the war.

It is no exaggeration to say that since 1940 there has been an economic revolution in the South. All lines of business have shared in the widespread changes, of which the following seven might be listed as the most outstanding: (1) increase in wealth generally, (2) rise in agricultural income, (3) development of mineral production and lumber, (4) record activity of old and new manufacturing industries, (5) concentration during the war of Army camps, Naval stations, air bases, and supply depots, (6) booming resort and tourist trade, and (7) prosperity in the merchandising, transportation, and service fields. Truly, the "Old South" has now become the "New South."

Conditions today are, of course, by no means uniformly favorable, and this section has not been immune from the difficult problems of postwar readjustment faced by all communities where there were war industries. Recently the Federal Reserve Bank of Atlanta reported that many of the smaller towns in the Southeast were particularly hard hit, and had developed considerable surplus of male labor. This is because numerous of the industries now most active—particularly apparel factories and canning plants—employ mostly women. The region has been freer than most others from serious strikes.

The eight Southeastern States run from the Mason and Dixon Line, at the Pennsylvania-Maryland border, down more than 1200 miles of coastline to the Everglades of Florida and Key West—southernmost point in the U. S. They include the oldest city in this country, St. Augustine, Florida, and the first English settlement at Jamestown, Virginia. Six of the States were among the thirteen that originally formed the United States of America.

The section encloses the nation's capitol in the District of Columbia, the homes of George Washington at Mount Vernon and Thomas Jefferson at Monticello, and is literally crowded with historical points of interest that attract a constantly growing number of visitors. Although Georgia has the largest area of any State east of the Mississippi River, and Florida and North Carolina are only slightly smaller, the entire group comprises in area only about 9% of the U. S. total. Its civilian population, however, is 14% of the U. S. total, as shown in the accompanying table.

Wartime Shifts in Civilian Population in the Southeastern States

	Area in Sq. Miles	1945 Population (000s)	Per Cent Change 1940-45
Delaware	2,057	287	+ 7.5
Florida	58,560	2,386	+24.8
Georgia	58,876	3,192	+ 2.0
Maryland	10,577	2,125	+16.4
North Carolina	52,712	3,505	— 2.2
South Carolina	31,055	1,906	— 0.2
Virginia	40,815	3,080	+14.5
West Virginia	24,181	1,725	— 9.6
District of Columbia	69	938	+36.9
Total, S. E.	278,902	19,144	+ 6.9
Total, U. S.	3,002,387	131,976	+ 0.2
% S. E. to U. S.	9.3	14.5	

During the war period 1940-45, when there was practically no increase in the total civilian population of the U. S. because of the entry of millions into the armed services, the civilian population of the South Atlantic States increased by almost 7%, due chiefly to the rapid growth of Florida, Maryland, and Virginia, but including also some temporary migration to war plants. Baltimore is the largest city in the section and, aside from Washington, D. C., there are

only a half-dozen other cities of more than 100,000, including Atlanta, Jacksonville, Miami, Richmond, Tampa, and Wilmington with an additional sixteen in the 50/100,000 range.

A Most Self-Sufficient Region

Most of these States are characterized by a varied topography, consisting of three principal types of land: a low coastal belt, fertile plains inland and, as far south as Georgia, highlands rising to the Blue Ridge and Appalachian Mountains. The productivity of its agriculture, wealth of mineral and forest resources, diversification of manufacturing, and development of related industries and trades are making the region one of the most self-sufficient in the entire country.

These States are well-equipped with transportation facilities, having a network of railroads including the Atlantic Coast Line, Baltimore & Ohio, Central of Georgia, Chesapeake & Ohio, Louisville & Nashville, Norfolk & Western, Pennsylvania, Seaboard Air Line, Southern Railway, Virginian Railway, and Western Maryland. Its many sheltered harbors stretching along the coastline are busy centers of coastwise and foreign trade. Air transport companies in the territory include All America Aviation, American Airlines, Delta Air Lines, Eastern Air Lines, and Pennsylvania Central (Capitol) Airlines. Several of the larger industrial and mining companies own their own private planes.

Varied Crops Including New Products

Agriculture was for many years the principal source of income in the South Atlantic States, and still is extremely important, but has been greatly improved and made the basis of numerous local manufacturing industries. In cotton and tobacco, still the two chief crops, it is the world's leading producer.

Because of the mild climate, with a growing season of at least six months, the section is one of the most important producers also of such crops as peanuts, sweet potatoes, rice, corn, hay, apples, peaches, berries, grapes, and fresh vegetables. Maryland is a leader in tomatoes, and Florida in grapefruit, oranges, and lemons. New products introduced or greatly expanded in recent years include tung oil, cane sugar, and ramie, as well as stock and hog raising, and dairying. In Florida they feed grapefruit to cattle for breakfast.

During the past ten years, farm cash income from crops and livestock practically trebled, rising from $853 million in 1936 to $2,542 million in 1946. Gains in Florida, North Carolina, and Delaware were particularly sharp, as shown in the next table.

Farm Cash Income from Crops and Livestock in the Southeastern States

(In Millions of dollars)

	1936	1945	1946
Delaware	$ 20	$ 93	$ 84
Florida	106	382	402
Georgia	167	374	423
Maryland	71	171	177
North Carolina	223	643	715
South Carolina	107	232	302
Virginia	118	342	350
West Virginia	41	86	89
Total, S. E.	853	2,323	2,542
Total, U. S.	8,212	20,781	23,934

Even in the swampy but fertile Everglades of Florida, continued progress is being made in water control by means of pumps, canals, and surface drains, and a variety of crops are being raised. The U. S. Sugar Corporations has 6,000 employes there processing daily 10,000 tons of sugar cane and other crops.

Although the Southeast possesses varied and extensive mineral resources, the two most widely known are the coal from West Virginia and phosphate rock used in fertilizer from Florida. Others of growing importance, however, include bauxite (aluminum), mica, iron, barite (barium), tintanium, zinc, asbestos, kaolin clay, fuller's earth, manganese, talc, feldspar, limestone, gypsum, salt, and soapstone. There are abundant deposits of sand, gravel, and building stone.

Approximately one-third of this entire section is forest land, and lumber products are among its leading sources of income. Pine is the principal wood, but many others are also grown, including fancy hardwoods.

Manufacturers Use Local Raw Materials

Probably the chief factor in the economic revolution of the South has been the development of manufacturing using the raw materials produced there, instead of shipping them north for manufacturing and then back as finished goods. One group of these industries is packing, canning, and preserving food, including a wide variety of fruits, vegetables, and meats, as well as fish, clams, and oysters from the commercial fisheries the entire length of the Atlantic and Gulf Coasts.

Cotton goods manufacturing has been prosperous during the war and even more so in the past two years. Production of rayon from cotton and wood fibre has developed into a tremendous industry, as has the weaving and knitting of rayon goods.

Pulp and paper making is growing rapidly, using principally the local pine that grows to 10 inch diameter in ten years. Reforestration programs are now followed to maintain the supply of pulpwood indefinitely. Furniture manufacture from local hardwoods is forging ahead.

Most of our rosin and turpentine are obtained from the pine trees in this section, and Savannah is the world's leading market in these naval stores. New chemical processes are being used to work over the countless old stumps, to produce not only rosin and turpentine, but also camphor and intermediates for plastics, perfumes, insecticides, rubber, and other products. Lignin, formerly a troublesome residue after removing the cellulose from wood pulp, has found profitable uses in building board and chemical products.

Cottonseed, which was dumped and caused a disposal problem years ago, is the basis of a prosperous industry making cooking oil, salad oil, margarine, and soap, with the pressed cake made into nutricous cattle feed. Other important industries using local products include distilling and soft drinks, while the world's greatest cigarette factories are located in Virginia and North Carolina. There are extensive shipbuilding yards strategically located in every State along the coast. One of the world's greatest aircraft plants—Glenn L. Martin—is in Baltimore, and many other plants in the section made aircraft and parts during the war. Following is a group of manufacturing companies having net income over $5,000,000 last year.

Manufacturing Corporations in the South Atlantic States Reporting Net Income After Taxes of Over $5 Million in 1946

(In Thousands of Dollars)

	Year Ended	Net Income 1945	Net Income 1946
American Viscose Corp., Wilmington, Del.	12/31	$ 5,192	$11,863
Burlington Mills Corp., Greensboro, N. C.	9/30	4,981	12,921
Cannon Mills Co., Kannapolis, N. C.	12/31	3,363	19,060
Coca Cola Company, Wilmington, Del.	12/31	25,125	25,370
Dan River Mills, Inc., Danville, Va.	12/31	1,339	9,962
E. I. du Pont & Co., Wilmington, Del.	12/31	77,521	112,620
Hazel-Atlas Glass Co., Wheeling, W. Va.	12/31	2,791	5,829
Hercules Powder Co., Wilmington, Del.	12/31	4,928	8,410
National Dist. Prod. Corp., Richmond, Va.	12/31	11,787	39,997
Newport News Ship. & Dry. Co., Newport News, Va.	12/31	5,199	5,355
R. J. Reynolds Tobacco Co., Winston Salem, N. C.	12/31	19,229	27,973
Reynolds Metals Co., Richmond, Va.	12/31	4,396	5,337
West Point Mfg. Co., West Point, Ga.	8/31	1,932	5,461
Wheeling Steel Corp., Wheeling, W. Va.	12/31	3,950	5,373

Of the numerous other manufacturing companies, in which there is active investor interest, having their headquarters here, the following are representative:

Delaware—Amalgamated Leather, American Seal-Kap, Joseph Bancroft, Bellanca Aircraft, Continental Baking, Continental Diamond Fibre, Electric Hose & Rubber, Houdry Process, and Gorham, Inc.

Florida—American Machinery, Canada Dry Bottling, Consolidated Naval Stores, and Foremost Dairies.

Georgia—American Bakeries, Callaway Mills, Columbia Baking, Georgia Marble, and Tom Huston Peanut.

Maryland—Anchor Post Products, Baltimore Porcelain Steel, Black & Decker Mfg., Cannon Shoe, Crosse & Blackwell, Crown Cork & Seal, Davison Chemical, Eastern Stainless Steel, Emerson Drug, and Maryland Drydock.

North and South Carolina—Adams-Millis, American Yarn & Processing, Brandon Corporation, Chadbourne Hosiery Mills, Drexel Furniture, Durham Hosiery, American Enka, Graniteville Company, and Henrietta Mills.

Virginia—Albemarle Paper Mfg., Alberene Stone, American Furniture, Bassett Furniture, Camp Manufacturing, Chesapeake Corporation, and Craddock-Terry Shoe.

Boom Business Conditions

As a result of this expansion in production of raw materials and finished goods there has been, as stated before, an outpouring of money that has brought truly "boom" conditions. Such business indexes as bank debits and department store sales have soared to new high records.

Some of the prominent retail and wholesale trade corporations having headquarters in this region include: Associated Dry Goods, Barber & Ross, Carpel Corporation, Julius Garfinckel, Burdine's, Haverty Furniture, Brager-Eisenberg, Dixie Home Stores, and Colonial Stores.

Free spending is reflected also in the service industries—motion picture theatres, hotels and restaurants, laundries, dry cleaning, etc., as well as in inflation of real estate and used automobiles and boats.

Whereas formerly there were only a few well-known resorts here, such as Asheville, Pinehurst, White Sulphur Springs, Palm Beach, and Miami, now almost the entire section is being "discovered" by literally millions as a vacation wonderland for motoring, riding, polo, fishing, boating, swimming, hunting, camping, golf, and so on. Horse racing tracks attract tremendous betting, while the gambling casinos are reported still busy.

While total national income in the U. S. increased between 1940 and 1945 by 101%, as shown in the next table, income in North Carolina increased 128%, in Virginia 130%, in South Carolina 132%, in Georgia 140%, and in Florida 165%.

Wartime Changes in National Income in the Southeastern States

	1945 Nat'l. Income (Millions)	Per cent Change 1940-45	1945 Per Capita Income
Delaware	$ 398	+ 67	$1,381
Florida	2,387	+165	996
Georgia	2,369	+140	745
Maryland	2,467	+102	1,212
North Carolina	2,575	+128	732
South Carolina	1,265	+132	663
Virginia	2,597	+130	903
West Virginia	1,457	+ 92	839
District of Columbia	1,617	+ 79	1,361
Total, S. E.	17,132	+119	895
Total, U. S.	152,704	+101	1,150

Much of the industrial development of the South has come from retained corporate earnings rather than public financing, and a great deal of the business here, particularly mineral and forest resources, is still owned by individuals and family corporations. A few recent new stock offerings of companies having annual sales over $10,000,000 are listed in the accompanying table, but there have been many offerings of smaller companies. Undoubtedly a great many more will come in order to obtain capital needed for the continued growth that is confidently expected. Analysts may find this a promising region in which to follow new business trends.

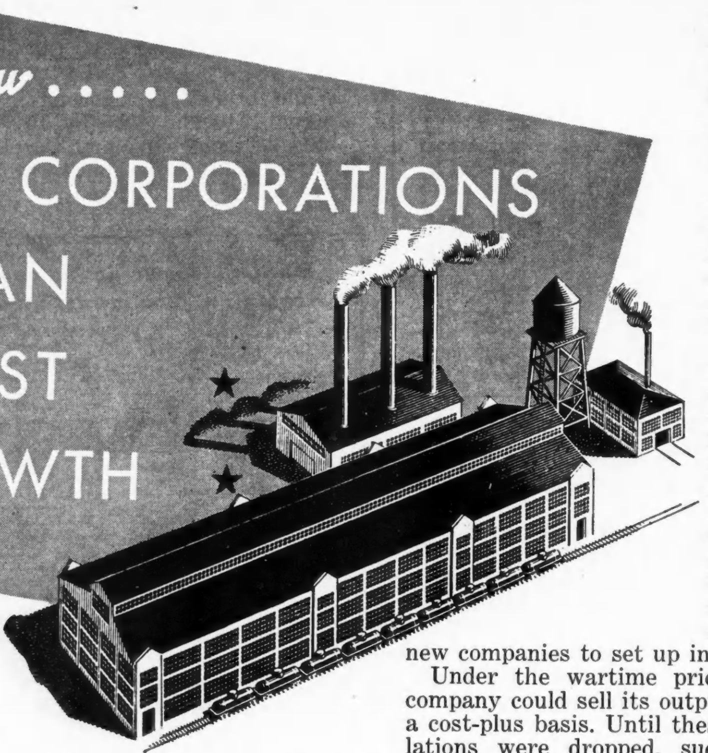
Recent New Stock Offerings of Companies in the South Atlantic States Having Annual Sales Over $10 Million

	Year Ended	Sales (000s)
Bluefield Supply Co., Bluefield, W. Va., Whol. mill supplies	12/31/46	$16,302
Georgia Hardwood Lumber Co., Augusta, Ga., Lumber and wood products	12/31/46	12,567
Hecht Company, Baltimore, Md., Department store	1/31/47	65,378
Miller & Rhoads, Inc., Richmond, Va., Department store	1/31/47	22,403
Natl. Vulcanized Fibre Co., Wilmington, Del., Fibre, plastics, etc.	12/31/46	13,465
Thalheimer Bros. Co., Richmond, Va., Department store	1/31/47	23,347

In an exhaustive review submitted in September 1942 to the National Resources Planning Board on the subject of "Regional Planning" (Part XI—The Southeast), the letter of transmittal by the distinguished regional committee closed with the following prophecy:

"The postwar period will bring many grave problems to the Southeast, but it will also provide great opportunities. It is toward the realization of these opportunities that the further activities of the Southeastern Regional Planning Commission are being directed. Our studies and conferences to date leave us firm in the belief that, as part of the larger South, the States of our region constitute the Nation's new frontier."

How..... BIG CORPORATIONS PLAN VAST GROWTH



By
WILLIAM A. HOWELL

A wave of corporation mergers has developed, since the end of the war, and this present trend seems likely to continue, at an accelerated pace, in the period ahead.

Certain elements are viewing this new development with alarm. And, not surprisingly, some of the loudest among them are found in political circles. Championing "Little Business" against "Big Business" has been found politically profitable by many in the past.

Already, in the present session of Congress, a half dozen anti-monopoly bills have been introduced. In general, these new proposals would prohibit practically all corporation mergers.

A bill presented by Senator O'Mahoney, for instance, would provide that "no corporation engaged in commerce shall acquire the whole or any part of the stock of another company where the effect of the acquisition may be to lessen competition between the corporations, restrain commerce or tend to create a monopoly of any line of commerce."

The latest bill, proposed by Congressman Kefauver, would "prohibit the acquisition of stock aimed to lessen competition or to tend to create a monopoly."

The wording, "to lessen competition," is the important part of the proposals. If six plants were competing (and losing money) in a market previously served by two plants, and where perhaps three plants might suffice, a merger of three of the six plants might reduce overhead and put the merged business in the black, but it also might run afoul of such laws as now proposed.

Many Companies Being Consolidated

In view of the hundreds of corporation mergers now taking place, and in view of the efforts to combat this trend, it may be important to consider the conditions and developments which have been largely responsible for the new wave of corporation consolidations.

Important is the fact that during the war thousands of new manufacturing companies came into existence, many on an uneconomic basis.

To meet war needs, the demand for certain manufactured products rose to unprecedented levels. Output of raw materials was stepped up to record heights, established manufacturing companies, in their old plants, and in new plants, increased their production sharply, and the conditions were lush for new companies to set up in business.

Under the wartime pricing regulations, a new company could sell its output to the Government on a cost-plus basis. Until these wartime pricing regulations were dropped, such new companies also could continue to sell to civilian markets starved for certain manufactured goods, the same or similar products on the same cost-plus price basis.

As Government buying tapered off, older, established companies found they were geared for production of their specialized types of products at a rate many times normal civilian needs, but with cash positions, in some cases, at unprecedentedly high levels. In an effort to achieve greater earnings on swollen capitalizations, many companies have been using cash suprluses to absorb established businesses in entirely new fields, hoping by diversification of activities to achieve a greater stability in future earnings. In other cases, mergers have taken place through exchange of stock.

Newer companies, a great many of which were started on a "shoestring," have been faced with the prospect of competition in peacetime markets, where wartime demands for their products will not prevail, and where they must buck established producers that have research departments and sales organizations that will be of vital importance in the period ahead—when goods must be sold, not just produced. Success under normal competitive conditions requires experience, costly sales organizations and capital for constant research and improvement of products.

The above adds up to mergers. The better situated of the newer companies can merge, or may be absorbed into bigger companies. Others must fall by the wayside and already the number of failures is high.

An example of excessive wartime productive expansion is found in the electric products field, and specifically in radio manufacturing. With the end of the war, scores of newer manufacturing companies were able to switch to production of radio sets for the civilian market, and sell in bigger easily-

accessible centers, such as New York, thousands of sets on a cost-plus basis. As improved products of larger companies enter the market, the newer, unknown, radio sets are piling up on dealers' shelves.

The rapid progress of the United States in radio has been due largely to development of large companies, such as General Electric, Radio Corp. of America, etc., which have been able to spend heavily on research and sales, have been able to improve their products and reduce prices, have been able to widen markets, cut costs.

Raytheon's Expansion

A specific instance of a post-war trend in the radio industry is provided by activities of Raytheon Manufacturing Co. Raytheon in the war was in the forefront in radar and various other electronic development work. The end of the war found Raytheon with production activities geared to an excessively high level, but having valuable patents, engineering skill and a relatively strong cash position. In April, of last year, Raytheon acquired Belmont Radio, an established radio set distributor, with long marketing experience.

In Raytheon's last annual report it was stated that the company's future policy will be "fundamentally to develop wider markets for its basic electronic products, and to seek higher profit margins through manufacture and marketing of a greater number of finished products — all based on the vacuum tube, the heart of electronics."

Raytheon has plans for operation of a number of radio and television stations. The company is in a position to manufacture its own transmission equipment.

An indication of the expansion of this company, as a result of wartime developments, may be seen in the fact that Raytheon's sales in the year ended May 31, 1945 (including Belmont) exceeded $173 million as compared with less than $3.5 million in 1939.

Electric Boat Diversifies

Another illustration is provided by Electric Boat Co., which built submarines for the United States Navy during the war. In June, 1944, stockholders of the company approved charter amendments, to permit "manufacture and assembly of all types of aircraft, synthetic rubber, plywood and plastics, and to allow operation of land, water and air craft."

Strong in cash (current assets of $14.5 million at end of 1946 compared with current liabilities of only $1.3 million), Electric Boat in January of this year bought from the Canadian Government for $2.5 million all the assets and business of Canadair, Ltd., and thus has become a major producer of transport airplanes. The Canadian Government during the war financed the construction of the Canadair plants, which are among the most modern and efficient airplane plants anywhere. Canadair is now making for Trans-Canada Air Lines and the Royal Canadian Air Force huge transport planes, jointly designed by the Canadian Government and Douglas Aircraft, and powered with British engines. The company also is doing extensive conversion and overhaul work for Trans-Canada and a long list of foreign aviation companies.

Electric Boat also has started to produce offset presses and other equipment for the lithographic trade, recently started construction of aluminum-magnesium bodies for leading makes of trucks, a new line of motor cruisers, high speed trawlers and other water craft, is producing electro-dynamic motors and generators for many marine and industrial applications, is making plastic automobile parts, as well as continuing to make submarines for the Navy.

AVCO Corp. in Many Lines

Still another example is AVCO Corp. (formerly Aviation Corp.). This company, prior to and during the war, was an outstanding factor in the aircraft and airline industries, now controls companies making such varied lines as ships, radios, refrigerators, broadcasting stations, kitchen sinks, ranges and farm implements.

Wartime developments also have been the cause of many other recent mergers, but for reasons entirely distinct from the desire of a "war company" to maintain earnings on an enlarged capital structure through diversification of productive activities.

Vertical Integration

As an instance are recent developments in the textile industry. In the past, this industry has been characterized by a high *(Please turn to page 405)*

Growth of Working Capital, Sales and Earnings of Selected Expanding Companies

	Net Working Capital $ Million		Sales ($ Million)					Net Per Common Share				
	1940	1946	1938-41 Average	1942-45 Average	1945 Fiscal Year	1946 Fiscal Year	1947 Interim	1938-41 Average	1942-45 Average	1945 Fiscal Year	1946 Fiscal Year	1947 Interim
AVCO Mfg. Co.	$ 1.0	$28.7	$ 8.4	$51.4	$32.1	$52.8	$25.1 Fe3	def$.01	$.74	$.99	$2.06	$.26 Fe3
Electric Boat	13.0	17.4	21.5	79.3	45.4	14.4	2.1 Mr3	2.21	2.59	3.11	1.98	......
Loew's	59.7	97.0	114.3	144.7	175.5	188.5	98.1 (a)	1.83	2.65	2.55	3.52	1.67 (a)
Noma Electric	.9	8.1	3.4	7.5	13.4	32.4	7.2 Mr3	.61	.61	.67	2.77	......
Pitts. Consolidation Coal	18.4	49.9	67.2	101.9	115.8	145.4	51.1 Mr3	......	......	2.88	2.69	1.32 Mr3
Raytheon Mfg.	.6	18.3	3.7	85.7	173.0	105.9	46.8 Fe9	.09	2.03	3.37	def.35	.71 Nv6
Textron	.6	15.8	7.3	27.2	46.8	104.9	32.3 Mr3	.09	.77	def.22	5.88	1.59 Mr3

(a)—For 28 weeks ended March 13.
Fe3—For 3 months ended February 28.
Fe9—For 9 months ended February 28.
Nv6—For 6 months ended November 30, 1946.
Mr3—For 3 months ended March 31.

Happening In Washington

By E. K. T.

ECONOMIC picture of the United States in the first six months will be depicted in detail shortly after the half-way mark of 1947 has been passed when the Council of Economic Advisers will place before President Truman its first comprehensive report. There wil be comparative statistics where available. Because the President is not obligated to make the findings public, it will be significant to note whether he chooses to retain the report in his own files or pass it on to the public. If he chooses the former course, inferences are certain to be drawn and he may elect to give it out. Quarterly reports are planned thereafter.

WASHINGTON SEES:

The United States Senate has proved once more that it truly is "the greatest deliberative body in the world," even though different persons may make different interpretations of the adjective "greatest." And in the "talkathon" that followed President Turman's veto of the labor-management bill, the senators have demonstrated to themselves that filibuster is here to stay, that cloture lived only in the parliamentary text.

Under senatorial rules, debate can be shut off only by unanimous consent (which, of course, cannot be obtained if any senator desires to prolong it), or through a cloture resolution which requires two-thirds supporting vote. Obviously the foes of the pending veto had two-thirds of the votes and several to spare. But the senators treasure their right to talk any proposition to death. Many who voted to override the veto would have opposed cloture. They want filibuster preserved for use on certain types of bills. Fair Employment Practice Committee, anti-lynching and anti-poll tax bills for example.

By-product of the around-the-clock talkfest was a weakening of the movement by majority vote. In the past, filibuster has largely been a weapon of conservative southern senators. This time it was led by liberal Senators Glen H. Taylor of Idaho, and Wayne Morse of Oregon. They have approved the practice of unlimited debate, will be reminded of it in the future.

POLITICAL EFFECT of the President's vetoes of the tax bill and the labor-management code, within Mr. Truman's own party, are difficult to assess. Most of the democratic votes to override came from the traditionally "regular" southern states. The case for tax reduction carries no more persuasion in the south than in other sections of the country, but the democrats from below the Mason-Dixon Line have always been in the forefront for labor union curbs. The President's victory on the tax bill isn't likely to cause more than a ripple among the dissenters in his party, but if the labor bill veto had been sustained the contrary might have been true.

MEAT PRICE rise was not unexpected by the Department of Agriculture because prices of livestock have been consistently increasing. Part of this is a seasonal reaction. The story that foreign buying caused the sharp rise is unfounded, officials in charge of that program asure. The former black market operators are soon to learn that, in the last analysis, it is the housewife who sets prices. Not only is foreign buying incapable of any serious impact upon the market, but also the present outlook is that the second quarter allocation of 155 million pounds will be drawn upon to the extent of not more than 125 million pounds.

VISIONS of a new Home Owners' Loan Corporation are reflected in action by the Veterans Administration setting up a Property Management Division. Its purpose is to handle disposition of homes when veterans default on GI loans and it comes little more than one year after provisions for guaranty of such loans were promulgated. The Veterans Administration is trying to discourage GI's from purchasing at current market prices, believes there is a sharp drop ahead, whether or not a depression sets in. It's too early for the new Division's services to be brought into play and it's doubtful that a pressured Congress would allow many veterans' homes to go on the block without enacting a counterpart of HOLC.

As We Go To Press

With their prime objective knocked out by a successful Presidential veto (the tax reduction bill, appropriately, was House Resoultion No. 1 on the official record) the Republicans have fixed July 26 as the date for adjournment. Meanwhile, the potential effects of the measure and the veto are being appraised. Foregone conclusion is that a major political issue has been found.

Only such party-indorsed measures as army-navy unification, the Presidential succession bill, log-jammed appropriations bills, and noncontroversial items recommended by the White House will be touched upon in the closing days.

Somewhat frustrated Republican leaders have failed to agree upon what should be done with the Wagner-Taft Ellender housing bill, the universal military training bill, and some other important legislation. Likelihood all of it will be passed over.

Decision still to be made is whether to quit next month sine die, in which event only the President could call the membership back for a special session; or whether to simply recess, subject to recall at the will of the majority party leadership. President Truman naturally favors the former course, thinking in terms of the international situation and of the importance of having this club over the heads of non-cooperating foreign powers. The Republicans are inclined to favor the latter. They're thinking mostly of domestic issues.

Regardless of whether Congress returns to Washington in the Fall or waits for the regular January meeting time, there will be no further effort this year to put through a tax reduction bill. To do so would require a retreat from a rigidly-held position, or re-enactment of a measure would invite a second veto. From the practical politician's viewpoint, the GOP would lose its campaign issue if a tax bill is put through in time to give the taxpayers relief by next year. Relief wasn't promised before 1948 anyway.

In sharp contrast to the programs under Democratic control of Congress, social and reform legislation is not docketed for action before the lawmakers leave Washington. Shelved are the FEPC bill, anti-poll tax legislation, minimum wage increases, and expansion of social security coverage. Federal aid for education has been stalled, and the bill for creation of a new Department of Education, Welfare and Security won't make the grade.

The power of demands generated behind the movement to give the Maritime Commission authority for continued operation of oil tankers is likely to squeeze that measure into the agenda for pre-adjournment attention. Steersman Robert A. Taft has been won over. The danger of a serious oil shortage in the eastern section of the country determined his course.

Government operation of tankers is but one of several factors which must be favorable if fuel oil and gasoline are to flow in sufficient amounts to avert a serious problem. More pipelines are in prospect, some tank cars will come into service it is hoped, and the Weather Man must cooperate by providing a late and not too severe winter.

The "Voice of America", which has created more controversy per dollar involved than any other proposition that has come before the current Congress, will be virtually silenced. Secretary Marshall asked for 34 million dollars to continue the worldwide information programs. Congress is disposed to grant about 6 million dollars, take the preparation of radio scripts out of the State Department and put it in the hands of commercial companies.

Sugar is likely to present a serious problem to Congress when it returns to Washington. There isn't time to assess its potentialities, and the facts won't all be in, before the Congressmen go back home. The Cuban crop now is being estimated at about 6.5 million tons. Growing concern is being felt as it is realized that surplus sugar is in prospect, and soon.

Foreign countries which were scrambling for allocations are turning them back, preferring to use dollars for grain and flour. Per capita consumption in the United States is suspected to be off after five years of rationing. The end of rationing also is causing jitters. It will see the end of pantry stocks and of purchases and five- and ten-pound lots by housewives. Congress faces the probability of a very large price support headache.

The government is beginning to buy new crop wheat. Commodity Credit Corporation is convinced prices should be adjusted downward but doesn't want to take the responsibility for pushing the market up or down while equalling this year's purchases for export.

Here is what is likely to be done by CCC: the quantity to be purchased by the government will remain a secret. The price to be paid will be determined on a day-to-day basis, taking into consideration not only the current market and futures quotations, but also allocations, shipping schedules, and some guesswork. The objective will be to buy and move up to 75 per cent of the export requirements before the end of the year.

Housewives who have been throwing a dash of synthetic detergents into the dishpan in recent months may not realize that they are launching a new enterprise into big league competition. No reliable production figures are available on these petroleum by-products but current guesses are that about 300 million pounds will be consumed annually at the current production rate.

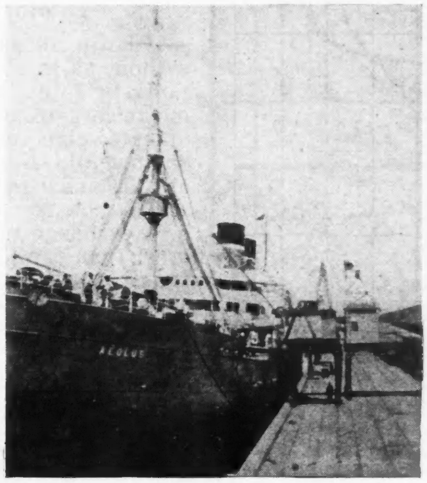
Saving of fats is estimated at 100 million pounds -- soaps use up to 38 per cent fat while the synthetic detergents rarely require more than 10 per cent. Large oil companies foresee a huge market and are making their plans accordingly.

Present indication is that the oil companies will make the ingredients for the soap manufacturers but remain out of the distribution side. The combination of the big oil companies and the big soap companies is likely to result in intensive competition that is certain to have an impact on the independents.

Students of political systems will find another interesting facet of the British labor government in a recently enacted farm bill. It proposes to guarantee the producer fixed markets for his products -- provided he isn't found by the Minister of Agriculture to be "inefficient." If he falls into that category, the bill provides an agricultural land commission will take over operation of his farm.

Washington's real estate lobby, which was powerful enough to put the national housing bill on ice for this session of Congress, is viewing a new trend in realty with apparent approval. It announced recently: "More and more corporations are weighing the advantages of owning their own structures as compared with long-term leases. Latest deal to highlight the trend was the recent sale of the Squibb Long Island plant to Mutual Life Insurance Co. Squibb promptly leased the building back for 25 years, plus renewal rights."

Balancing Our Trade in LATIN AMERICA



Mexico's President Miguel Aleman has been building increased good-will and trade relationships with U. S.

Photo by Press Assoc.

Argentina's President Juan Peron, after stormy relations, seems headed for more cooperation with U. S., due partly to his antagonism to communism.

***By* V. L. HOROTH**

During the first months of this year, our exports to Latin America reached an unprecedented rate of $3,800 million a year. If anybody would have dared —only a year ago—to put our Latin American exports at such a figure, he would have been considered somewhat out of his right mind. The figure borders on the fantastic. It is about **eight** times as high as our pre-war exports, and nearly **five times** as high as our Latin American exports during the prosperous late 'Twenties. Our 1946 exports to the 20 Republics south of the Rio Grande reached $2,100 million, a record up to that time.

If Latin American imports from us are at the rate of $3,800 million a year, her overall imports are probably at the rate of about $5,250 billion a year. That also is a figure the magnitude of which is hardly realized. It represents over one-fourth of the total national income of Latin America. To make a comparison with the United States, this is as if we were importing foreign goods at the rate of about $40 billion a year.

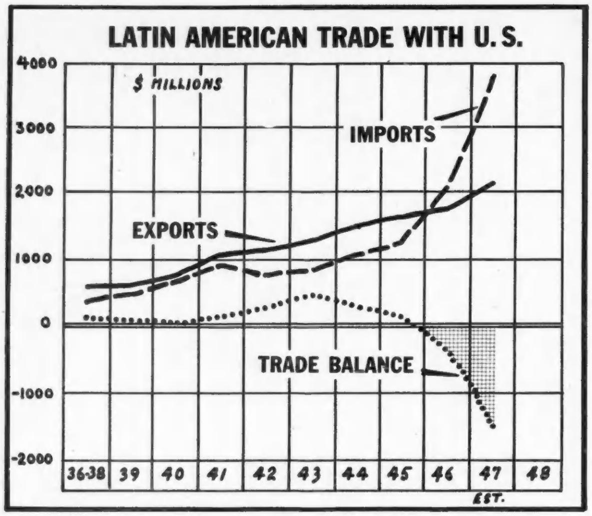
How can the present unprecedented level of Latin American imports from the United States be explained? Probably it is the consequence of a number of circumstances. (1) The United States occupies a dominant position. Because we have ready goods to sell, we have Latin American markets more or less to ourselves. Instead of supplying about 30 per cent of Latin America's imports, as we did before the war, we now furnish nearly 70 per cent of her imports. This will be seen from the accompanying chart. The competition from Europe has been thus far limited to a relatively few products, but it is becoming more intensive.

(2) Latin America's deferred demand for goods, particularly industrial products, is huge. At the same time, the purchasing power of Latin American countries has never been higher. Owing partly to inflation their national income, measured in dollars, has about doubled since 1939. Moreover, this purchasing power has been kept high by the maintenance of exchange rates at levels that are unreal, considering that prices in most Latin American countries are much higher than in the United States. Hence, as another factor that has contributed to the unprecedented volume of our goods flowing to Latin America, one may add: (4) the low prices of our industrial products (which are usually also technically superior) as compared with the local products. Finally, (5) a practical doubling of our own export prices since 1939, has also been an important factor in bringing up our Latin American exports to the present level.

Chances of Maintaining the Present Export Rate

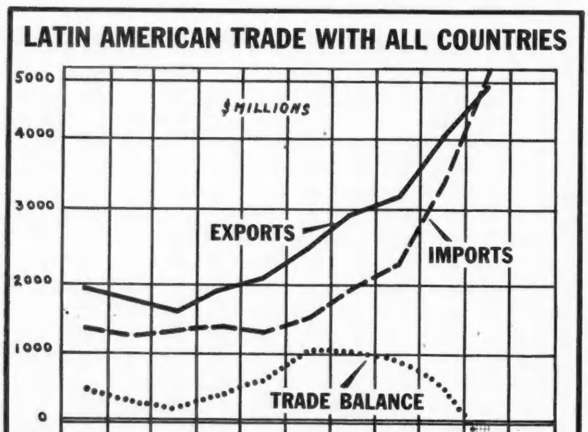
Latin America is perhaps our most natural and most valuable customer. The reason is simple. In contrast with Europe and other parts of the world, our exports to Latin America have not been dependent upon loans or gifts. Latin America has been paying with the proceeds of her own sales or by drawing on the wartime accumulated gold and foreign exchange reserves. Because of this, the question undoubtedly foremost in the minds of the industrialists and traders who do business with Latin America and who want to stay in that business, is: how long can Latin America keep on buying from us at the present rate? To what extent will the accumulated gold and dollar reserves sustain our present export rate?

Some people, including many businessmen, believe that the United States is slipping unless we are continually establishing new records, be it in domestic



sales or in exports. The honest answer to the first question is that the present level of our exports to Latin America is altogether too high—even considering that prices are nearly twice as high as they were before the war—and that it would be foolish to try to keep it indefinitely at the present "boom and bust" level. It would have been much better if our exports to Latin America had not sky-rocketed to the present volume, not only from the viewpoint of spreading business here more evenly, but also from the viewpoint of preventing considerable losses. Most Latin American ports are jammed by the flood of American goods pouring into them. Steamers wait for days to unload their cargoes. The facilities for the distribution of the goods are inadequate and they have been accumulating at railway and highway distributing points—often exposed to tropical weather conditions. The reports of goods being abandoned and of severe losses to both exporters and importers are on the increase.

Moreover, it is inconceivable that Latin America — as a whole — could import goods from us at the present rate for any length of time. Possibly a few individual countries could do it: Argentina, Uruguay, Cuba and the Dominican Republic. But Latin America as a whole can do it for only a few months, possibly for the rest of this year—**unless the United States lends Latin America the dollars to buy our** goods, or unless we lend dollars to Europe. These dollars spent freely by Europe could then be used by Latin American Republics to buy goods in this country.



The Drain on the Exchange Reserves

If Latin America is going to buy goods from us—without us lending her the dollars to do so—at the fantastic rate of $3.8 billion a year, and if she is going to buy an additional $1.5 billion of goods from other foreign countries, as she is doing at present, she must do two things: (1) be able to export goods at the annual rate of at least $4.5 to$5 billion, and (2) be able to convert into dollars most of the foreign exchange that she receives from the countries other than the United States. Otherwise she will be forced to use her accumulated gold and dollars at such a rate that in less than two years she will scrape the bottom of the barrel.

On the basis of the present trade figures, the gap in Latin America's international transactions with the United States will be **at least $2.0 billion in 1947.** While buying from us at the annual rate of $3.8 billion, Latin America is selling us goods at present at the annual rate of about $2.2 billion. This is not a small figure in comparison with the wartime export rate of about $1.6 billion, but it is not enough. To the estimated $1.3 billion which Latin America must find to finance her import trade balance with us, must be added several hundred million dollars representing payment for transportation charges due to us, and the annual dividend and interest bill. It is doubtful that Latin America's export surplus with other countries will provide that many dollars. Not only is this export surplus much smaller than the import balance, in the trade with the United States, but a substantial part of the export surplus is in the currencies inconvertible into dollars. Hence, a heavy draft this year on the wartime accumulated reserves of gold and dollars seems inescapable.

It seems that the gold and foreign exchange reserves of individual Latin American countries have already been under severe pressure. Mexico, Colombia, Chile, Bolivia, Peru, and Ecuador are reported to have lost from 25 to 40 per cent of their reserves already. The Brazilian reserves, still about $670 million, are down about $50 million from the peak. The decline of about $350 million in Argentine holdings seems to have been due largely to the repatriation of public debt and the purchase of foreign-owned railways and public utilities by the Argentine Government. However, in the last two or three months even Argentine reserves have apparently been under pressure because of too heavy imports, and it is rumored that Argentina is now shipping gold to New York.

On the other hand, the gold and foreign exchange reserves of Cuba, Venezuela, the Dominican Republic, and Salvador are still on the increase. The reserves of a number of other countries, Uruguay, Guatemala, and Paraguay are stationary. According to a reliable estimate, the reserves of 18 Latin American countries declined about $500 million from the peak to roughly about $4 billion as of the end of April 1947. Apparently they are being drawn down at the monthly rate of about $100 million.

Import Restrictions

In most Latin American countries import restric-

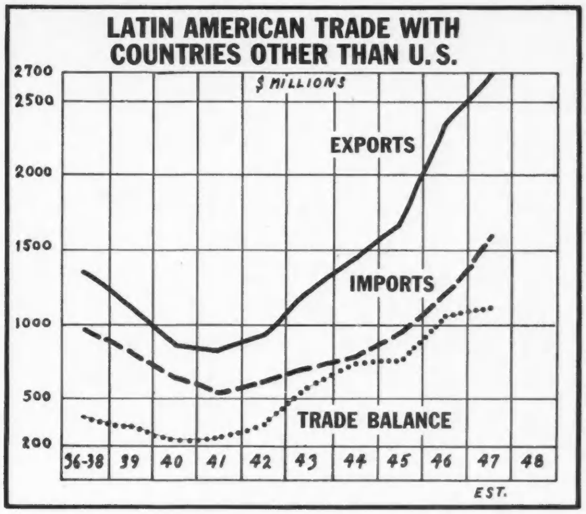
tions were relaxed during the war and during early part of 1946, while gold and dollar balances were accumulating. In order to relieve inflationary pressure, the idea was to get almost any kind of imports. This trend has been completely reversed during recent months. Through import licensing, the individual Latin American countries are trying hard to lessen the drain on their gold and dollar resources, or at least to divert their spending to capital goods and essentials. With the exception of Cuba, Panama, Guatemala, Haiti, the Dominican Republic and El Salvador which have not introduced foreign exchange or import restrictions as yet, Latin American countries have been braking the flow of imports through the tightening of import controls or by making the dollars that can be used for the payment for non-essentials, more expensive. In Peru, for example, the bidding for free dollars (that can be used for non-essential imports) has lifted the free market quotation of the dollar from about 8 soles (the official rate is 6.5 soles) to 12 soles to the dollar.

Mexico, Colombia, and the West Coast Republics have now elaborate import licensing systems that are subject to frequent changes. In Chile, Peru, and Ecuador the issuance of import licenses is limited to the foreign exchange created by current imports. Even at that collections are being delayed—not that the importers have no local currencies, but because there are no dollars available for certain goods. In order to accommodate the Chilean Government several foreign concerns operating in the country are said to be paying their taxes in advance in dollars. The tightening exchange situation is apparently causing substantial losses. Goods are piling in warehouses awaiting the issuance of import permits. In some countries collections have slowed down because a greater availability of imported goods has lead to a drop in prices. Some importers cannot dispose of the goods on hand except at a loss.

Prospects for Latin American Exports

There has been still another reason why the individual Latin American countries have moved to conserve their gold and dollar resources by restricting their purchases to the essentials: the prospects for the maintenance of Latin American exports at the unprecedented level of $4.5 to $5.0 billion are growing dimmer. There is, however, a big "if." If the United States engages in heavy lending of dollars to Europe, as Secretary Marshall's program implies, the prospects would be for further expansion rather than a decline.

Why, with things as they are today, can't Latin American exports be expected to continue around the present levels? One reason is the increased competition. The products of Southeastern Asia, vegetable oils, rubber, tin, and cinchona bark are beginning to appear on world markets in increasing quantities. Latin



America's wartime monopoly in a number of tropical products is over. However, in talking about 20 Latin American Republics which include such widely differing countries as, for example, Haiti and Argentina, one is a constant danger of oversimplification. There are always exceptions, and this is true also about export prospects. The prospects for the continuation of Cuban exports at the present level, because of sugar shortage, are excellent. Much the same is true about Venezula; her petroleum export will probably continue booming. And the revival of banana exports should help the countries of Central America.

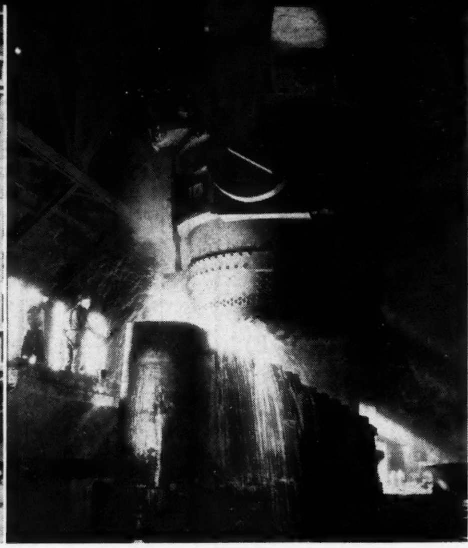
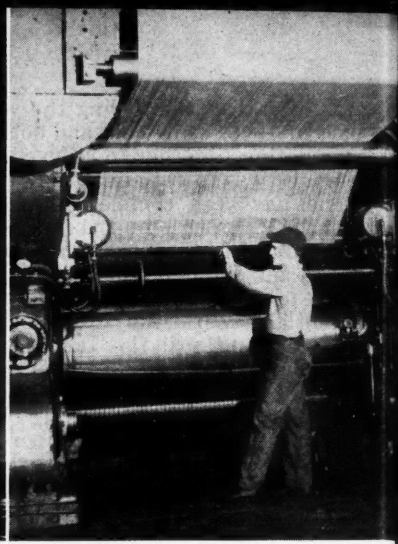
The decline of Latin American exports has also been indicated by the shift in the purchases of Europe and other countries. These purchases, it must be remember were in 1946 fully as large as our own purchases from Latin America. There are indications that, with the UNRRA out of the picture and the prospect of poor crops this Fall, Europe has already begun to expand its purchases to such essentials as wheat, at the expense of such "non-essentials" as coffee, cocoa, and vegetable oils. This development, while bullish for Argentina (*Please turn to page* 399)

Latin America: Trade with U. S. and Gold and Foreign Exchange Reserves

(All figures in millions of dollars)

	U. S. Exports to			U. S. Imports from			Trade Balance		Gold and
	1937—39	1946	1947 Rate(a)	1937—39	1946	1947 Rate(a)	1946	1947 Rate(a)	For. Exch. Res.(b)
Argentina	84	193	552	80	194	166	— 1	+ 386	1,550
Bolivia	5	22	32	1	24	23	— 2	+ 9	29
Brazil	70	356	707	109	408	483	— 52	+ 224	670
Chile	25	77	127	39	84	89	— 7	+ 38	68
Colombia	44	146	233	50	157	226	— 11	+ 7	148
Ecuador	4	22	53	4	13	18	+ 9	+ 35	25
Paraguay	1	6	9	1	4	4	+ 2	+ 5	12
Peru	18	63	109	14	36	37	+ 27	+ 72	25
Uruguay	8	48	102	9	48	29	0	+ 73	280
Venezuela	53	212	421	22	120	176	+ 92	+ 245	250
Costa Rica	4	23	35	6	11	22	+ 12	+ 13	5
Cuba	83	272	482	120	323	497	— 51	— 15	550
Dominican Republic	6	30	49	6	20	28	+ 10	+ 21	50
Guatemala	8	23	46	10	31	56	— 8	— 10	45
Haiti	4	13	27	3	18	20	— 5	+ 7	12
Honduras	6	19	28	6	9	10	+ 10	+ 18	10
Mexico	85	505	663	55	233	276	+272	+ 387	225
Nicaragua	3	12	20	3	6	11	+ 6	+ 9	4
Panama	27	46	121	4	6	7	+ 40	+ 114	90
Salvador	4	14	29	7	15	56	— 1	— 27	35
Total	542	2,100	3,845	549	1,760	2,234	+340	+1,611	4,083

(a)—The first four months multiplied by three. (b)—As of April 30, 1947; partly estimated.

SIX COMPANIES

— *Forging Ahead in their Fields*

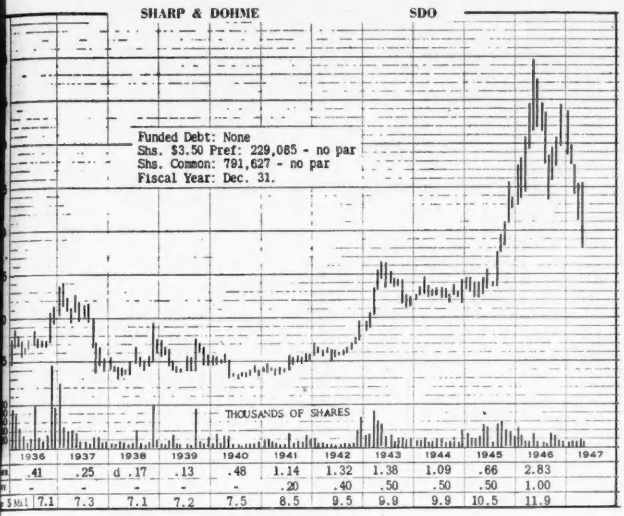
SELECTED BY OUR STAFF

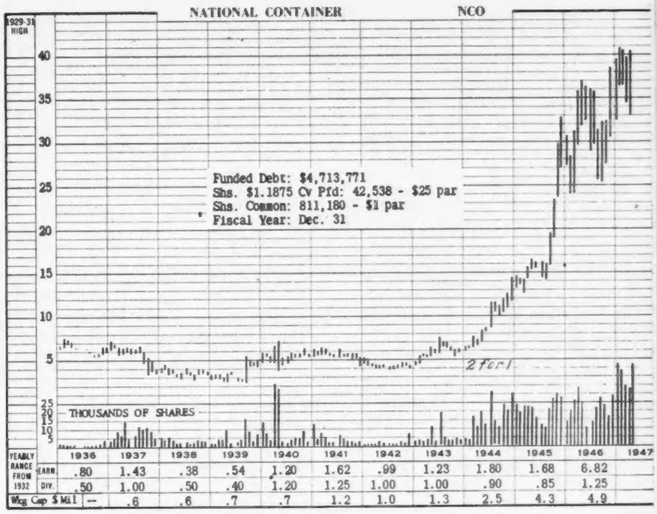
In these days when wise investors are in a strong cash position, many have made careful plans to employ their surplus funds along well defined lines when an opportune time arrives. Through establishing policies to average portfolio costs down or by advance study of promising new additions, they have readied themselves for prompt action to achieve stable income or strengthen potentials for future appreciation.. But not everyone is blessed with so much farsightedness. Hence to assist those of our readers still indecisive as to selectivity, we have chosen six concerns for discussion that in our opinion warrant more than usual confidence. On following pages will be found condensed analyses of these various companies, along with statistical evidence of their current status and a ten-year chart recording security price fluctuations, earnings, dividends and changes in working capital.

The angle by which we have approached this special task is slightly different from that commonly employed by us. That is to say, in making our selections we have first picked out half a dozen important and promising industries, and scanned their components to detect one in each which for one or more reasons appears to hold unusual promise under current conditions and those likely to evolve during the medium term. In other words, a sound financial position, dynamic management and indications of aggressively expanding earnings, have weighed more heavily in our scales than mere factors of size or past dominance in any of the industries under inspection. By use of this yardstick, it seems as if a well timed purchase of shares in these special concerns would assure both satisfactory income and ultimate price enhancement, the dual goals of most investors, and usually the most difficult to reach. Over long periods, prices for shares of high grade companies usually preclude a really attractive yield; the outlook for possible appreciation is fundamentally uncertain. Under current conditions, when a bear market has been in progress for more than a year, the time is approaching when well chosen selections can be made with above average confidence, whether income or capital gains is the prime motivation. As to the timing of acquisitions, followers of our market specialist, Mr. A. T. Miller, would do well to heed his advice, appearing in every number of the Magazine of Wall Street.

Aggressive Management Vital

Often overlooked in the study of investment stocks, and indeed quite as hard to uncover, is the element of sound but aggressive management. Plenty of concerns enjoy long records for earnings stability, fairly certain evidence that their affairs are in the hands of conservative executives. The roster of companies with unimpressive or variable records, on the other hand, is a longer one, especially if prewar years are taken as basis. The rich experience gained by industrialists since Pearl Harbor is bearing fruit, though, by debt reductions, peak working capital positions and newly unfolding opportunities. In the competitive race now under way, signs of new vitality are clear in the progress of some long established giants in the field, but perhaps of more interest to investors are those enterprises where executive talent, imagination, and push have brought them markedly upstage in their respective industries. Concerns with these special characteristics, aside from growth fundamentals in the usual sense, could display a degree of strength in the competitive arena which might lead to increased profits and dividends over a reasonable period or cushion the impact of a possible general recession. Regardless of bear market prices now, should the future progress of these dynamic concerns bear out present optimistic appraisals, their share prices in due course might reflect this circumstance with an impressive upward trend. As in each of the cases we have selected, different factors naturally combine to establish our favorable opinion, the brief outlines of the six companies on the following pages should be studied in their individual lights.





SHARP & DOHME, INC.

BUSINESS: Outgrowth of a business established in 1845, this enterprise has achieved a high rank among producers of ethical drugs. In all some 850 kinds of various items are included in its output, including sulfur drugs and blood plasma. Subsidiaries operate in Canada, Mexico and England.

OUTLOOK: With practically no reconversion problems to solve, Sharp & Dohme has been able to hold its sales close to the abnormally high levels of war years, for worldwide demand for ethical drugs for civilian use has proven to be very large. Had not lack of supplies been an adverse factor, capacity operations would have been achieved ever since V-J Day. This situation is now greatly improved, enhancing the outlook accordingly. Emphasis upon large scale research has resulted in numerous new and essential drugs, outlays for this purpose alone having risen by $200,000 in 1946 compared with 1945. As a result of aggressive policies in the field of research, 54% of last year's sales represented items developed during the past decade. From one of these alone, Sulfadiazine, an arbitration board recently awarded the company $1,750,000 in royalties claimed from another concern. Because of current world conditions, prospects for continued large sales and profits hold much promise, although for how long is uncertain. For many years past the company's net earnings have kept well in the black, though variable at times. Acquisition recently of a large modern plant from WAA should help to stabilize profits, though they may not continue indefinitely at last year's pace of $2.84 per share.

DIVIDENDS: Quarterly dividends equal to 25 cents per share during the past five periods represent a steady uptrend since 1941. Prior to that date for more than a decade all net earnings were retained in the business, after payment of dividends on the preferred.

MARKET ACTION: Range thus far in 1947 has been high—33¾, low—18, and the recent price—21.

COMPARATIVE BALANCE SHEET ITEMS

	Dec. 31, 1941	Dec. 31, 1946 (000 omitted)	Change
ASSETS			
Cash	$ 973	$ 2,408	+$1,435
Receivables, net	3,171	4,396	+ 1,225
Inventories	6,069	9,297	+ 3,228
TOTAL CURRENT ASSETS	10,213	16,101	+ 5,888
Plant and equipment	4,901	6,309	+ 1,408
Less depreciation	2,122	2,684	+ 562
Net property	2,779	3,625	+ 846
Other assets	130	320	+ 190
TOTAL ASSETS	$13,122	$20,046	+$6,924
LIABILITIES			
Accounts payable and accruals	$ 571	$ 986	+$ 415
Reserve for taxes	706	3,246	+ 2,540
Other current liabilities	403	....	— 403
TOTAL CURRENT LIABILITIES	1,680	4,332	+ 2,552
Reserves	354	1,326	+ 972
Capital	9,000	9,075	+ 75
Surplus	2,088	5,413	+ 3,325
TOTAL LIABILITIES	$13,122	$20,046	+$6,924
WORKING CAPITAL	$ 8,533	$11,869	+$3,336
CURRENT RATIO	6.1	3.8	— 2.3

NATIONAL CONTAINER CORPORATION

BUSINESS: Company and its subsidiaries are outstanding in the field of fibre shipping containers, both from the angle of completely integrated operations and their large number of established industrial customers. Mills and timberlands are located mainly in the South Atlantic States.

OUTLOOK: As a producer of kraft pulp, paperboard, corrugated and solid fibre containers, folding cartons and weather-proof boxes, National Container through aggressive sales management has become strongly entrenched with more than 4000 industrial customers throughout the nation. In late years the efficiency of this kind of shipping material as to both weight and strength, has brought it increasing popularity in a highly competitive arena. Due to the character of its markets, the business is sensitive to changes in industrial activity, though under reasonably good conditions sales are stabilized by rapid repeat demand. Cost controls are enhanced by use of the most modern equipment in factory and forest, and the company's engineers are constantly alert to design or utilize the newest improvements available. Through selected acquisitions of other concerns, the size of the company has steadily expanded. Sales last year were more than five times the level of 1939, while net per share rose to $6.83 against a relative $1.08 eight years ago. While volume and profits may soon taper off, this concern seems well able to hold its own under competitive conditions.

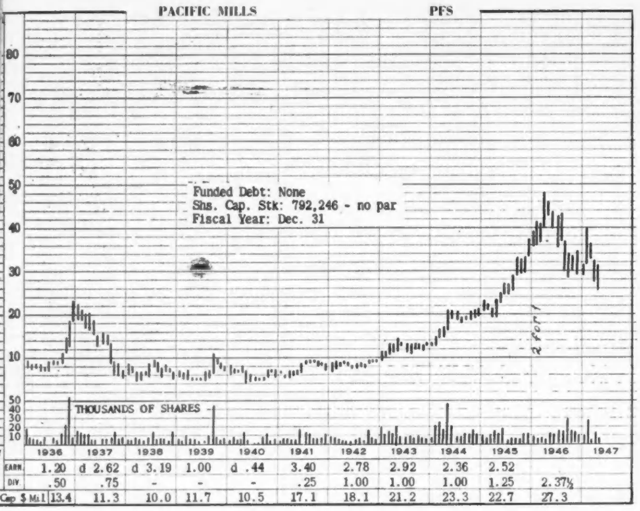
DIVIDENDS: Since 1934 dividend payments have been regular, though varying somewhat in amount. Last year's payments of $1.25 per share plus a distribution in stock have been been followed by a rate of 75 cents per share for the first two quarters of 1947.

MARKET ACTION: Recent price—37⅝ as against a 1947 high of 40⅞ and a low of 32¼.

COMPARATIVE BALANCE SHEET ITEMS

	Dec. 31, 1941	Dec. 31, 1946 (000 omitted)	Change
ASSETS			
Cash	$ 720	$ 4,232	+$ 3,512
Marketable securities	49	145	+ 96
Receivables, net	893	2,443	+ 1,550
Inventories	858	3,749	+ 2,891
Other current assets	12	12	....
TOTAL CURRENT ASSETS	2,532	10,581	+ 8,049
Plant and equipment	7,062	19,009	+ 11,947
Less depreciation	1,342	7,840	+ 6,498
Net property	5,720	11,169	+ 5,449
Other assets	286	2,090	+ 1,804
TOTAL ASSETS	$8,538	$23,840	+$15,302
LIABILITIES			
Notes payable	$ 210	$ 2,155	+$ 1,945
Accounts payable and accruals	345	1,886	+ 1,541
Reserve for taxes	804(a)	1,609	+ 805
TOTAL CURRENT LIABILITIES	1,359	5,650	+ 4,291
Minority interest	....	219	+ 219
Deferred liabilities	....	1	+ 1
Short term debt	299	1,600	+ 1,301
Long term debt	2,008	3,114	+ 1,106
Capital	330	1,874	+ 1,544
Surplus	4,542	11,382	+ 6,840
TOTAL LIABILITIES	$8,538	$23,840	+$15,302
WORKING CAPITAL	$1,173	$ 4,931	+$ 3,758
CURRENT RATIO	1.9	1.9	....

(a)—After deducting 851,700 U. S. Tax Warrants



PACIFIC MILLS

BUSINESS: Company is one of the larger domestic producers of various textiles, including cotton, rayon and woolen fabrics, with a business experience dating back to 1850. Production of worsteds and woolens is centered in Massachusetts, and of cotton goods in South Carolina.

OUTLOOK: While the 1946 bonanza characteristic of the entire textile industry may pass into history in the near term, thus far in 1947 Pacific Mills dollar sales have been running at a rate approximately a third above last year's excellent showing. Volume for 1946 amounted to $78.3 million, and per share net earnings to $11.99. Net per share of $1.68 in the first quarter of 1947 compared with $1.30 for the comparable period last year. It cannot be expected that under normal competitive conditions net earnings such as those achieved during the past eighteen months will be possible. But an alert management has completely modernized the facilities since Pearl Harbor, and because of Government priorities at a cost of from 25% to 50% below current levels. Three high cost and obsolete Northern plants were abandoned and all cotton operations transferred to the South. From an operational view, accordingly, the company is well fortified to meet increasing competition. At the beginning of the current year, working capital of $27.3 million had risen $5 million in a 12 months period, and the realtionship of current assets to current liabilities stood at better than 7 to 1.

DIVIDENDS: Prior to 1925 no interruption of dividends had occurred since 1863, but during several subsequent periods ommissions featured the record, including 1938 to 1940. Since then, distributions trended upward to a peak of $2.75 last year, plus a stock dividend of 5%. Based on last year's dividend, the current yield would be 9.2%.

MARKET ACTION: A recent price of 29 compares with a 1946 high of 48 and a range in 1947 of high—39½, low—25⅝.

COMPARATIVE BALANCE SHEET ITEMS

ASSETS	Dec. 31, 1941	Dec. 31, 1946 (000 omitted)	Change
Cash	$ 968	$ 4,594	+$ 3,626
Marketable securities	....	5,236	+ 5,236
Receivables, net	9,882	6,302	— 3,580
Inventories	15,974	15,574	— 420
Other current assets	....	76	+ 76
TOTAL CURRENT ASSETS	26,844	31,782	+ 4,938
Plant and equipment	25,285	35,551	+ 10,266
Less depreciation	15,224	18,525	+ 3,301
Net property	10,061	17,026	+ 6,965
Other assets	386	458	+ 72
TOTAL ASSETS	$37,291	$49,266	+$11,975
LIABILITIES			
Notes payable	$ 5,675	....	—$ 5,675
Accounts payable and accruals	2,476	$ 3,139	+ 663
Reserve for taxes	1,578	1,115	— 463
Other current liabilities	....	209	+ 209
TOTAL CURRENT LIABILITIES	9,729	4,463	— 5,266
Defered liabilities	....	1,386	+ 1,386
Reserves	2,500	7,147	+ 4,647
Capital	19,806	19,806	....
Surplus	5,256	16,464	+ 11,208
TOTAL LIABILITIES	$37,291	$49,266	+$11,975
WORKING CAPITAL	$17,115	$27,319	+$10,204
CURRENT RATIO	2.8	7.1	+ 4.3

SUNSHINE BISCUITS, INC.

BUSINESS: In the special field in which this company operates, Sunshine (formerly Loose Wiles Biscuit Co.) is a strong contender. The business is well integrated, milling all the flour for its 350 packaged crackers, cookies, etc., besides operating a carton and printing plant. Output of "Vassar" chocolates and candies enhances diversification.

OUTLOOK: Dealing principally with low priced food items, widely advertised for years past, the business of Sunshine is of a character that appears to be resistant to the impact of generally depressive periods. For a full decade prior to the war, for example, while earnings varied somewhat their general stability was most impressive. The move last year to identify the company name with its best known brand indicated shrewd managerial policies. Although volume during war years doubled previous achievements, sales of $76.3 million in 1946 showed only a moderate dip, and with relief from EPT per share earnings rose sharply for a high record of $6.23. First quarter of 1947 net per share of $1.57 compared with $1.38 for the relative 1946 period. With plants and branches strategically covering the entire country, and with a strongly entrenched trade position, Sunshine appears to be forging ahead in line with increased public purchasing power. During the past five years, working capital has grown to peak proportions of more than $14 million.

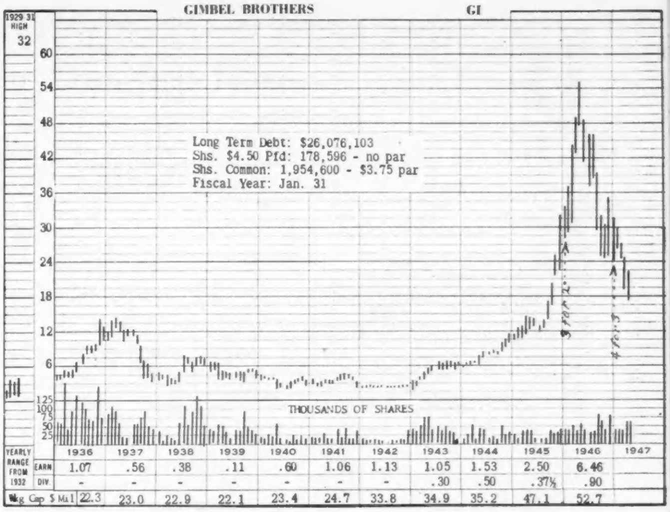
DIVIDENDS: Since 1927 Sunshine Biscuit has paid dividends without a single interruption. Dividends have trended upward from $1 per share in 1941 to the present rate of $3 annually.

MARKET ACTION: Top price for these shares in the current year was 45⅛ and the low was 32⅞, compared with a recent price around 38. At this level, the present dividend rate indicates a yield of about 7.9%.

COMPARATIVE BALANCE SHEET ITEMS

ASSETS	Dec. 31, 1941	Dec. 31, 1946 (000 omitted)	Change
Cash	$ 2,838	$ 6,005	+$3,167
Receivables, net	2,418	2,775	+ 357
Inventories	6,615	11,590	+ 4,975
TOTAL CURRENT ASSETS	11,871	20,370	+ 8,499
Plant and equipment	20,271	20,646	+ 375
Less depreciation	8,867	9,234	+ 367
Net property	11,404	11,412	+ 8
Other assets	9,333	1,133	— 8,200
TOTAL ASSETS	$32,608	$32,915	+$ 307
LIABILITIES			
Notes payable	$ 3,500	....	—$3,500
Accounts payable and accruals	850	$ 3,017	+ 2,167
Reserve for taxes	1,096	3,332(a)	+ 2,236
TOTAL CURRENT LIABILITIES	5,446	6,349	+ 903
Short term debt	4,000	....	— 4,000
Reserves	383	2,505	+ 2,122
Capital	12,765	12,765	....
Surplus	10,014	11,296	+ 1,282
TOTAL LIABILITIES	$32,608	$32,915	+$ 307
WORKING CAPITAL	$ 6,425	$14,021	+$7,596
CURRENT RATIO	2.2	3.2	+ 1.0

(a)—After deducting $1.8 million U. S. Tax Notes.



ALLEGHENY LUDLUM STEEL CORPORATION

BUSINESS: Production of high grade specialty steels, such as stainless, alloy, tool, and silicon, absorbs most of the capacity of this concern's seven manufacturing plants. Sales of "Allegheny Metal" and other stainless steels are made to a large number of different industries.

OUTLOOK: Wartime development of new alloys and processes has greatly broadened the horizon for Allegheny Ludum with the result that its sales of stainless steel last year reached a record level. The corrosion resisting qualities of the stainless alloys appear to offer unlimited opportunities for exploitation in practically every field involving durable items, from industrial equipment, transportation, electrical goods, food processing to domestic items for the home. Large scale laboratory and market research seems to be keeping the company well abreast of its competitors. Production of everything from steel ingots to sheets, bars and wire provide desirable diversification. To modernize its facilities, with potential benefit to profit margins, the company plans to spend in all about $15 million and entirely out of earnings. About a third of this program has been accomplished already and the balance will be spread comfortably over near term years. Although current working capital of about $22 million contrasts with $13.6 million in 1944, the company has arranged a bank credit for $10 million at 2% for use if needed. Allegheny retired all of its preferred stock in 1944 and has no bonded debt. Except in occasionally poor years, net earnings have been satisfactory since 1905. Per share net of $5.12 last year compared with $2.68 for 1945.

DIVIDENDS: Only during two years (1932-33) has this company or its predecessor failed to pay dividends since 1905. $2 per share was paid in 1945-46 and the latest quarterly distribution was 40 cents per share.

MARKET ACTION: Recent price—34, compared with a 1947 range of 48-32. Top price in 1946 was around 61.

COMPARATIVE BALANCE SHEET ITEMS

	Dec. 31, 1941	Dec. 31, 1946 (000 omitted)	Change
ASSETS			
Cash	$ 2,989	$ 8,631	+$5,642
Marketable securities	232	2,992	+ 2,760
Receivables, net	7,566	8,070	+ 504
Inventories	14,218	16,274	+ 2,056
Other current assets	5	15	+ 10
TOTAL CURRENT ASSETS	25,010	35,982	+10,972
Plant and equipment	38,173	43,796	+ 5,623
Less depreciation	20,049	28,593	+ 8,544
Net property	18,124	15,203	— 2,921
Other assets	554	228	— 326
TOTAL ASSETS	$43,688	$51,413	+$7,725
LIABILITIES			
Accounts payable and accruals	$ 5,021	$12,365	+$7,344
Reserve for taxes	7,460	1,564	— 5,896
TOTAL CURRENT LIABILITIES	12,481	13,929	+ 1,448
Minority interest	570	515	— 55
Reserves	246	675	+ 429
Capital	10,711	8,052	— 2,659
Surplus	19,680	28,242	+ 8,562
TOTAL LIABILITIES	$43,688	$51,413	+$7,725
WORKING CAPITAL	$12,529	$22,053	+$9,524
CURRENT RATIO	2.0	2.6	+ .6

GIMBEL BROTHERS, INC.

BUSINESS: Company and its subsidiaries operate the Gimbel stores in New York, Philadelphia, Pittsburgh and Milwaukee, Saks 34th Street in New York and several other stores in various parts of the country.

OUTLOOK: For the year ended January 31, 1947, this aggressive department store group sold $293.3 million of merchandise, far more than in any previous year. In view of heavy markdowns during the later months, and establishment of an inventory reserve of $5.5 million the achievement of earning $6.46 per share on the common shares was most creditable. In 1945 the showing was $2.50 per share. In late years this concern has exhibited speed in developing promotional programs of decided originality and its control of inventories under difficult conditions has been impressive. Despite the recent flux in prices and merchandise adjustments, Gimbels last year did not have to draw upon its reserves and the relationship of inventories to sales changed only a few percent compared with 12 months previous. Gross profit margins, too, changed little from those of the year befote. All of these things show skilled management and promise well during the uncertain period now beginning to evolve. While chances are that net earnings may trend downward somewhat in the near term, the full year showing will be good compared with years prior to 1946.

DIVIDENDS: Variable earnings in the prewar decade induced the management to build up working capital rather than favor shareholders. In late years, though, payments began at 45 cents per share in 1943, increasing to 75 cents per share in 1946 by steps. The current quarterly rate of 12½ cents seems secure.

MARKET ACTION: Rather strong leverage characteristics lend considerable volatility to the equity shares. A recent price of 21¾ compares with a high of 42 and a low of 17⅛ for 1947.

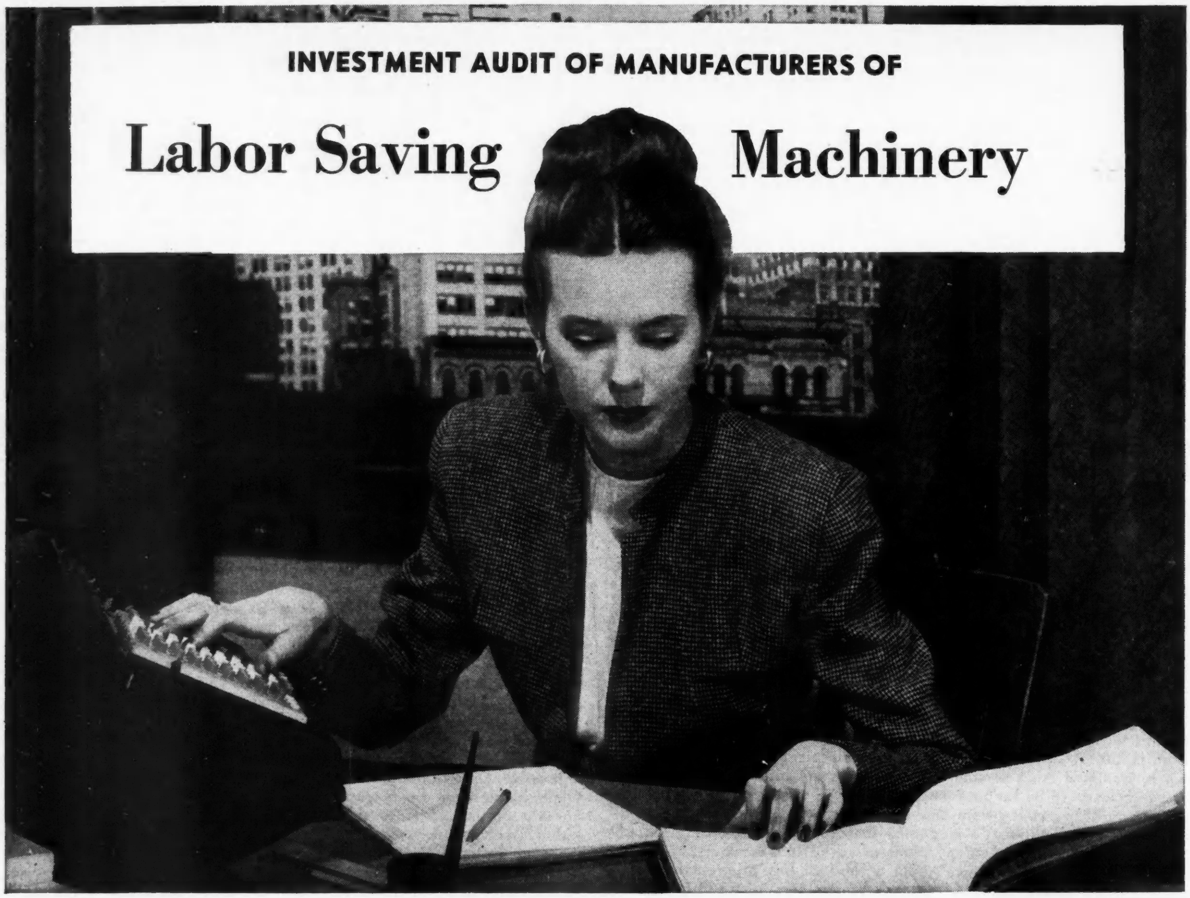
COMPARATIVE BALANCE SHEET ITEMS

	Jan. 31, 1942	Jan. 31, 1947 (000 omitted)	Change
ASSETS			
Cash	$ 2,060	$ 6,846	+$ 4,786
Marketable securities	160	164	+ 4
Receivables, net	17,453	31,481	+ 14,028
Inventories	17,810	53,684	+ 35,874
Other current assets	476	....	— 476
TOTAL CURRENT ASSETS	37,959	92,175	+ 54,216
Plant and equipment	63,315	52,961	— 10,354
Less depreciation	18,854	19,038	+ 184
Net property	44,461	33,923	— 10,538
Other assets	4,541	3,599	— 942
TOTAL ASSETS	$86,961	$129,697	+$42,736
LIABILITIES			
Notes payable	$ 4,949	$ 5,315	+$ 366
Accounts payable and accruals	7,064	16,340	+ 9,276
Reserve for taxes	761(a)	13,822	+ 13,061
Other current liabilities	432	3,934	+ 3,502
TOTAL CURRENT LIABILITIES	13,206	39,411	+ 26,205
Deferred liabilities	....	706	+ 706
Long term debt	28,864	24,212	— 4,652
Reserves	447	5,688	+ 5,241
Capital	23,865	27,052	+ 3,187
Surplus	20,579	32,628	+ 12,049
TOTAL LIABILITIES	$86,961	$129,697	+$42,736
WORKING CAPITAL	$24,753	$ 52,764	+$28,011
CURRENT RATIO	2.9	2.3	— .6

(a)—After deducting $1½ million U. S. Tax Notes

INVESTMENT AUDIT OF MANUFACTURERS OF

Labor Saving Machinery



Science is helping industry to increase man-hour productivity and to lower labor costs through all types of labor saving devices

By ROGER CARLESON

During the 1930's, there was a sudden agitation over "technocracy" — the theory that machinery was displacing human labor to an alarming degree and causing unemployment. This has been a recurring fear during periods of industrial depression, and some labor unions deliberately follow a "make work" or "slow-down" policy as a result of this philosophy. During a period of prosperity when labor inefficiency is combined with high wage rates, manufacturers invest heavily in labor-saving machinery—with the result that labor again suffers during an ensuing period of unemployment.

Thus, the use of machinery to save labor costs follows an irregular pattern and this irregularity may be a contributing factor to the extremes of the American business cycle. Theoretically, it would be better for business to defer orders for new machinery until a depression period, and labor would benefit in the long run if it didn't work inefficiently when employment is high—but as long as human nature remains unchanged, we shall probably continue to have at least minor business cycles in a free economy.

Industry Combatting Labor Costs

Right now, the nation's industries are combatting high labor inefficiency, with a resulting huge demand for products to improve our mechanical set-up. Despite vast amounts spent for machine tools during the war (some of which however were not adaptable to peacetime programs) half the nation's equipment is said to be obsolete. This obsolescence is due to the rapid engineering progress in the development of new and better machines.

The machine tool industry, immensely active during the war, was threatened with a postwar slump because the Government Surplus Disposal Administration threw large amounts of tools on the market. But now the growing demand for new and specialized models is giving the machine companies a new lease on life. Moreover, Europe and South America are buying large quantities of machinery to replace equipment destroyed during the war and/or to improve production methods.

The new crop of machine tools can accomplish industrial miracles, reducing job time in some cases to one-tenth the former time. Electronic controls are being added to eliminate the need for operating skill, reduce operator fatigue and cut operating time. The use of carbide-tipped cutting edges (almost as hard as a diamond) is another innovation which increases the power and speed of machine tool operations. While this means heavier machines and more horse-power to operate them, the increase in output will more than reimburse the extra cost. Many of these new machines will be displayed at the Septem-

Statistics on Selected Manufacturers of Labor Saving Machinery

	Current Ratio (Assets to Liab.)	Net Per Common Share 1938-41 Average	1942-45 Average	Fiscal Year 1945	Fiscal Year 1946	1947 Interim	1946 Dividend	1946-47 Price Range	Recent Price	Price-Earnings Ratio
American Machine & Foundry	3.6	$1.12	$1.04	$1.02	$1.08	$ .30 Mr3	$ .80	45¼-18¼	$21	19.4
Automatic Canteen of America	6.9	1.82(e)	1.59	1.28	1.25	.87(a)	1.00	37½-15½	21	16.8
Bliss, E. W.	3.4	2.07	3.17	def.14	3.39	2.01 Mr3	Nil	33¼-18¼	26	7.7
Bucyrus Erie	2.8	1.16	1.20	1.12	2.08	....	.85	25⅜-13⅛	16	7.7
Chain Belt	2.8	1.80	1.77	1.75	1.46	2.11 Ap6	1.00	43 -20½	26	17.8
Chicago Pneumatic Tool	5.3	2.72	3.99	3.57	5.01	2.29 Mr3	1.50	37¾-17	27	5.4
Clark Equipment	4.2	2.46	3.49	2.93	1.94	1.36 Mr3	1.50	35⅝-22¼	27	13.9
Deere	8.2	2.90	2.92	2.16	2.46	....	1.50	58½-31	39	15.8
De Vilbiss	3.2	1.58(f)	1.54	2.41	2.98	....	.75	24 -15½	18	6.0
Evans Products	2.6	.40	2.06	3.12	3.29	2.58 Mr3	.50	33¾-15¼	22	6.7
Ex-Cell-O	2.9	3.61	6.00	5.28	3.03	1.10 Fe3	2.60	63¼-32⅛	37	12.2
Food Machinery	2.3	2.37	4.89	6.38	6.42	1.89 Mr3	1.80	100 -69¾	80	12.5
Hewitt Robins	2.6	1.66	2.85	2.30	1.70	1.34 Mr3	1.00	39½-20¼	21	12.4
International Harvester	4.9	3.50	4.67	4.42	3.91	....	3.00	102 -66¼	89	22.8
Joy Mfg.	2.3	2.54	1.92	1.43	3.29	4.08 Mr6	1.50	35½-18⅛	32	9.7
Link Belt	3.5	2.72	4.26	3.60	5.50	1.84 Mr3	2.00	66 -43	54	9.8
National Cash Register	2.4	1.43	1.85	1.33	2.06	1.46 Mr3	1.25	45½-31	40	19.4
Niles-Bement-Pond	7.1	2.06	2.39	1.85	def.06	....	.15	26¼- 9⅝	11	....
Remington Rand(b)	2.2	1.46	2.19	3.01	7.12	.88 Ap1	1.30(c)	50¼-24¼	32	4.5
U. S. Hoffman Machinery	1.5	.62	1.73	2.74	7.31	1.06 Mr3	2.00	47⅜-16	18	2.4
Yale & Towne	2.8	2.14	2.97	3.30	2.12	1.14 Mr3	1.00	61½-33	36	17.0

Fe3—For 3 months ended February 28.
Mr3—For 3 months ended March 31.
Mr6—For 6 months ended March 31.
Ap1—For 1 month ended April 30.
Ap6—For 6 months ended April 30.
(a)—For 24 weeks ended March 15.
(b)—Fiscal year ends March 31 of following calendar year.
(c)—Plus 5% Stock.
(e)—1940-41 Average.
(f)—1938-39 Average.

ber show of the National Machine Tool Builders Association — the first in twelve years. The show is counted on to stimulate the sale of new models.

Science Developing New Devices

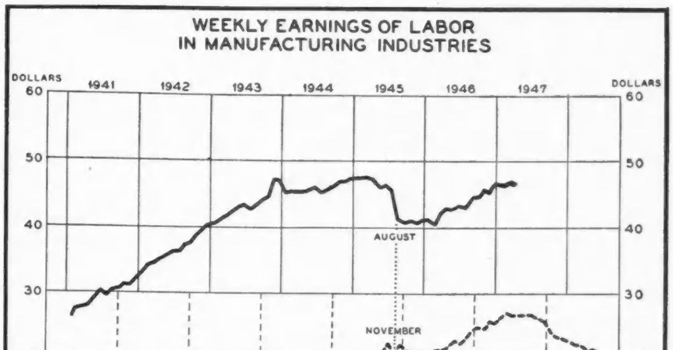
Science is also contributing important labor-saving devices in the "mathematical machines." Some fifty varied types of these are said to be completed, under production, or planned. While first employed by the Government to compute tidal movements and later to solve ordnance problems, they are now being adapted by industry to handle complicated accounting and tabulating problems. In the future, any good-sized plant will doubtless possess one or more of these machines (in smaller models) which will replace part of its accounting and statistical department. While there is a lot of work yet to be done on these super-gadgets, they may revolutionize our accounting and statistical procedure over the next decade or so, saving a vast number of clerical man-hours.

In the shipping and freight business (as well as in factory movement of goods) there are radical new types of loading and handling devices which must be worrying the stevedores' unions. Usually a cargo ship takes three or four days to load or unload, but with the use of the new paletizing systems, time will be decreased to five or six hours, it is claimed.

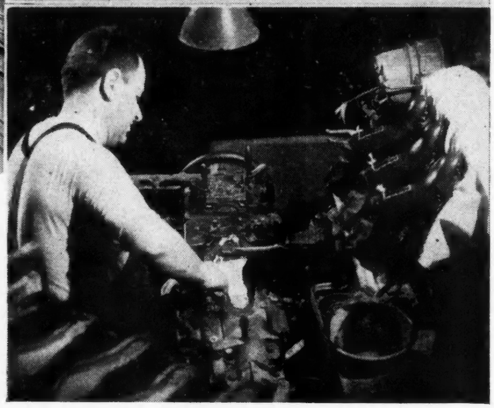
In agriculture, there are a host of new machines to reduce labor. A large fleet of helicopters has been ordered for dusting hundreds of acres of plants on a large scale. New kinds of weed killers and cultivators are being introduced, Cotton picking by hand may soon become a thing of the past. Huge migratory fleets of "combines" are now busy threshing our record-sized wheat crop.

It is impossible in the scope of this article to discuss all these new products or the companies which are making them. We have selected the stock of the following companies for comment:

International Harvester is the largest of the farm implement companies and has paid dividends since 1918. It has an unusually diversified line including trucks, tractors, tillage implements, planting and seeding machines, haying machines, grain harvesting machines, dairy and other farm equipment. Recent lines are the new low-priced lightweight tractor and home freezers. Production is getting under way of both the new TD-24 (the largest model crawler tractor) and the Farmall (*Please turn to page* 401)



Higher costs for hides, labor and rent, on one hand—and consumer resistance to shoe prices, on the other—are worrying the industry



Photos by Thom McAn

New Trends in The Shoe Industry

By STANLEY DEVLIN

During the war the civilian felt the pinch in his shoe supply. Today the pinch appears to have shifted to the other foot—the manufacturer, wholesalers and retailer.

With the end of hostilities there was a vast improvement in the leather supply. The interesting chart accompanying this article shows how wartime uses of leather for military shoes, which require about three times as much leather per pair as civilian shoes, had forced down production of the latter. Discontinuation of footgear for our armed services after V-J Day restored the relationship of tanning to leather shoe production to the prewar basis.

As the chart shows, the trend in total footwear production rose sharply and the proportion of leather shoes to all types advanced even more substantially. Top production was hit in the second quarter of 1946 with 144 million pairs of shoes produced. But the troubles of the industry were not over. Record manufacturing efforts depleted leather supplies considerably so that they were inadequate especially during the third quarter of 1946, affecting production figures adversely. Furthermore, price ceilings limited profit margins, and price controls on meat disrupted the flow of hides and skins to tanners.

Controls Ended Last October

When the price ceilings and controls on shoes and meat were lifted in October, 1946, there was an immediate increase in shoe prices. Some of the marginal producers and manufacturers in the industry jumped quotations by too much and subsequently ran into trouble, especially after the critical deferred demand for footwear was satisfied. Most of the established branded lines were more moderate in their price increases and were rewarded with a strong, steady volume of business.

Profit margins were well maintained for the year as a whole and tax relief helped to lift income of the shoe companies, to a phenomenal degree in some cases, as you can see from a study of the statistical table accompanying this article.

1947 Footwear Fair Disappointing

By April, 1947, however, when the annual footwear fair was held in New York, retailers had become less optimistic. The shoe industry had witnessed a decline in output in the first quarter of this year to 120 million pairs, which was 17% below the second quarter peak of 1946. Nevertheless, this rate was as high as the prewar peak in 1941. It must be pointed out, too, that the greatest loss was in fabric and part-fabric shoes, slippers and mocassins.

Sellers of shoes had begun to meet with price resistance from consumers. Easter came early this year, weather was unfavorable and most retailers in April were still carrying heavy stocks from the Easter season.

Sales at the shoe fair were 25% to 50% below anticipations, although this was due partly to the fact that the show was held two months earlier than usual. There was pressure by dealers to get lower quotations . . . buyers were looking for bargains in price and quality.

Manufacturers Costs Up

In answer to such demands, President Sheppard of the National Shoe Manufacturers Association then said, "A firm hide market, a scarcity of desirable

Financial Survey of Shoe and Leather Companies

	Current Ratio (Assets to Liab.)	Net Per Common Share 1938-41 Average	1942-45 Average	Fiscal Year 1945	Fiscal Year 1946	1947 Interim	1946 Dividend	1946-47 Price Range	Recent Price	Price-Earnings Ratio
Allied Kid	2.5	$ .77	$1.75	$1.62	$1.84	$2.02 De6	$1.25	29½-18	$19	10.3
Amalgamated Leather	3.6	def .57	.31	.30	1.83	....	.30	12¼- 5½	6½	3.5
American Hide & Leather	13.9	def .03	.71	.72	def .07	1.99 Mr9	Nil	12⅞- 5⅝	7	....
Beck (A. S.) Shoe	2.5	....	1.59	1.93	4.49	....	1.00	33¼-16	18	4.0
Brown Shoe	4.0	1.25	1.76	1.61	4.86	3.38 Ap6	1.20	45⅜-25¾	27	5.6
Compo Shoe	1.8	.80	.66	.70	1.29	....	.37½	11¼- 7	7½	5.8
Edison Brothers	3.8	1.25	1.18	1.39	3.53	....	1.75	40⅜-19	21	5.9
Endicott Johnson	4.6	.78	1.15	2.44	2.58	....	3.00	51⅛-21½	32	12.4
Florsheim Shoe A	4.8	1.19	1.31	1.50	1.84	2.13 Ap6	1.50	29 -18	19	10.3
General Shoe	13.5	1.36	1.68	1.71	3.76	2.22 Ap6	1.60	47 -26	23	6.1
International Shoe	6.3	1.84	1.89	1.66	1.62	....	1.80	49⅞-36	40	24.7
Kinney, G. R.	2.8	def .02	.84	.86	4.77	....	1.00	29 -11¾	12	2.5
Melville Shoe	2.8	1.00	1.05	1.05	1.73	....	1.15	29¾-20	23	13.3
Schiff Co.	2.3	2.06	2.37	2.74	8.52	....	1.75	46½-25½	27	3.2
Seton Leather	4.8	1.17	1.11	1.11	3.56	....	1.20	16⅜-12	12	3.4
United Shoe Machinery (a)	4.8	3.93	3.19	3.13	....	....	3.12½	84⅞-62	66	21.0
U. S. Leather	10.2	def 3.55	def .23	def .55	def 1.22	1.32 Ap6	Nil	13⅞- 5⅜	6	....

def—Deficit.
De6—For 6 months ended December 31, 1946.
Mr9—For 9 months ended March 31.
Ap6—For 6 months ended April 30.
(a)—Fiscal year ends February 28 of following calendar year.

leathers, high rents and high wages in factories and stores do not add up to general price reductions in shoes."

Since then, other executives in the industry have substantiated this statement. President Gray of International Shoe stated last month, "Demand will continue greater than the amount we can supply. There is nothing in the present situation to justify a change in International's prices."

Nevertheless in many quarters retailers and wholesalers have continued to expect a break in prices before fall. Some of the low and moderate priced shoe chains such as Thom McAn (Melville Shoe Corp.) and Spencer Shoe have cut retail prices in order to assure a high level of sales. Whether or not reduced prices can be continued into the Fall is doubtful.

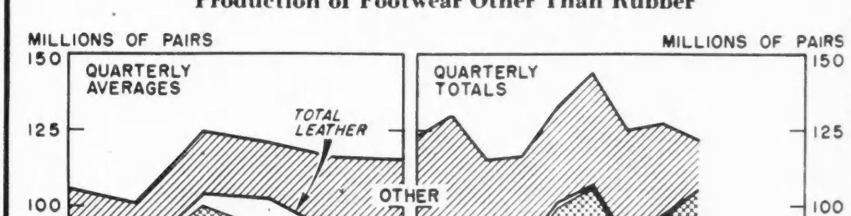
In particular, this applies to better lines of men's footwear where a 50c a pair rise at wholesale level is looked for, in view of higher hide prices especially for top grade leathers and lighter weight hides. Many shoe buyers have been making additional purchases recently. Stiffening of hide and skin prices and premiums for better quality leathers should stimulate an increased covering of fall shoe commitments.

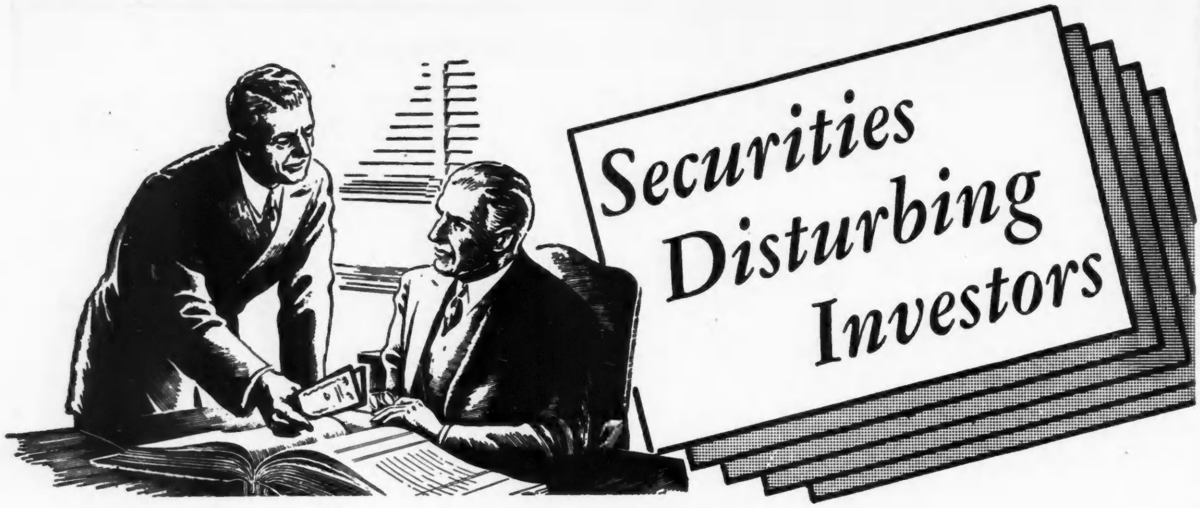
Shorter Hours and Higher Hide Prices

Currently the industry remains one of the few segments in manufacturing where output is below postwar peak levels. The Census Department recently reported that employment in April was lower for only three industries and one of these was leather and leather goods. The lowest figure on employment of 168,000 came in the third quarter of 1945, from which the number of production workers rose to about 196,000 in March, 1947. While this meant a 17% increase in workers, the shorter work week cut the man-hour gain to only 15% . . . contributing to higher costs.

Latest statements from the Bureau of Labor statistics report renewed buying by tanners as causing substantially higher quo- (*Please turn to page* 403)

Production of Footwear Other Than Rubber





PART IV

By EDWIN A. BARNES

Unusual volatility in share prices, whether up or down, invariably arouses unwarranted hopes or apprehensions by some segments of the investing public. Regardless of carefully studied fundamentals, a major change in quotations stirs up a feeling that behind the scenes something unknown to the shareholder is going on that ought to be disclosed. Especially is this true where previous analysis has been casual or out of date, and rather than paper profits substantial paper losses have piled up. Following a long term general downtrend in share prices, many of our readers have expressed concern over holdings that may have been ill-advisedly retained in their portfolios, or on the other hand have experienced a price decline sufficient to suggest timely averaging. Hence we continue in this number of the Magazine of Wall Street our discussions of selected situations evidently bothering some of our readers, to judge from our incoming mail. To supplement our work in this direction, the market advice presented by our specialist, Mr. A. T. Miller, in every number of the Magazine, should be carefully followed, for timing, as well as selectivity, is a very important factor in all investment programs, especially when it comes to a question of just when to average costs through the purchase of additional shares. If current circumstances justify a complete sell out of certain holdings, despite a loss that must be taken, we may be able to establish sound reasons for such a step.

American Telephone & Telegraph Company

Because there are more shareholders in this sound old enterprise than in any other corporation in the world, it is natural that some among them have worried from noting a rather slow sag in the share prices since the beginning of the current year. From a 1947 top of 174¾ a low of 149¾ was reached not long ago, followed by a recovery to a recent level around 155. Based upon the $9 dividend rate, this would provide a yield of nearly 6%. In view of the normal high investment stature of this medium, such a yield appears too good to assure confidence in its stability, in the eyes of some investors. While it is undeniable that for some time past, A.T.&T.'s rate of return on in its huge capital investment has been gradually declining to a low of not much over 6%, and since V-J Day operating costs have continued to climb—out of the highly complex picture there are certain factors that combine to somewhat of an offset. In financing its new $2 billion expansion program, this $7 billion giant has more than one way of raising the needed funds and at interest rates considerably below the 6% mentioned above. A.T.&T. 3% bonds command a premium of more than 14 points, for example. Better yet, before arriving at net income, the company last year deducted some $212 million for depreciation and amortization in its consolidated accounting. While this sum was conservative, it bolstered cash accordingly, and much of it could be used to install new and immediately productive equipment. In all, it amounted to more than the $208 million finally left for net income, and was the equivalent of about $9 each for the company's 25.7 million telephones in service at the end of 1946, although of course it could not be apportioned in this way. Fact is that the company is receiving revenues from about 4.5 million more telephones than early last year and is installing others at the rate of about 300,000 per month. In addition, the usage of equipment has risen by about 16%, especially for profitable toll and long distance conversations. As the backlog of new orders under current conditions should strain capacity for at least a year to come, and gross income should benefit decidedly, the outlook is far from discouraging. True, some of the company's subsidiaries have either passed or reduced their dividends recently, but rates boosts have been granted in several States and are likely to follow in many more. Western Electric Co., too, has contributed larger income to the parent than it has lost from other sources. All in all, anxiety over the A.T.&T. dividend has no very firm basis. At least that is our guess.

Burry Biscuit Corporation

Against a 1946 high of 12¼ and even one of 7 in the current year, a recent price of 3¾ apparently

has worried some of our readers, and they are hardly to be blamed. This manufacturer of packaged food products, including Educator, Crax and Simple Simon handles good quality items and enjoys sales of close to $9 million annually. Over a ten-year period, though, competition from larger units in the industry apparently has created a rather drab showing as to earnings for Burry. During a decade, peak net per share of 55 cents seems to have been the best the company could show, and in the 1939-41 period, deficits appeared upon the books. No dividends on the common have been paid since 1937. During the past year or so, though, the financial status has improved through conversion of high rate preferred into common, and through privately placed low rate term loans. Working capital rose to $3.1 million at the end of 1946, up threefold from the showing for the previous year. While this better condition may conceivably help to push earnings to a more impressive level, that remains to be seen. In relation to last year's net earning of 25 cents per share of 12 months ended October 31, the shares seem adequately priced even at current levels. At best they are highly speculative and so volatile in character that their appreciation potentials are decidedly obscure.

The Lambert Company

In hovering around 30 of late, the shares of this established producer of pharmaceuticals are some 2 points above their low for 1947 and 14 points below their high for this year. In the 1946 spring boom they registered a high of 68. Question now is are they near the buying zone? In common with most of the larger drug concerns, Lambert enjoyed an excellent year in 1946, earning $4.52 per share compared with $2.97 in 1945. During the first quarter of 1947, sales held up rather well but scarcity of raw materials and higher costs forced net earnings down to 70 cents per share, off 52% compared with the same period a year ago. Demand for Listerine products and Pro-phy-lactic brushes continues fairly strong at the consumer level, but distributor pipelines have now been adequately filled. During the second quarter, it may develop that net earnings are none too satisfactory, but unless a serious recession sets in they should trend upward again in the second half. For more than 20 years past the business of Lambert has been consistently profitable and diversification has assisted in causing a general uptrend since Pearl Harbor. Dividends have been paid regularly on the common since 1926, and the current quarterly rate of 50 cents per share seems secure, especially as working capital of around $15 million is ample in relation to annual sales of $30 million. Due to a yield of 6.7% at current prices, the shares have a measure of both investment and speculative appeal. Investors who bought the shares at considerably higher prices might be wise to average their costs should an opportune further decline in the market occur.

Sunshine Milling Company

This largest domestic producer of silver also derives lead, copper and antimony from its mines in the Northwestern part of the United States. The company owns in fee 14 claims with an acreage of 223 in Idaho, besides affiliated interests in several other mining properties. Developed ore reserves at the end of 1946 were estimated at 1.2 million tons, about 70% of which represented Sunshine's interest. While earnings and dividends have been consistent since 1927, net income reached a peak of $5.4 million in 1937, equal to $3.63 per share, but since that time both production and profits have steadily declined as some of the valuable ore bodies tended to thin out. Last year the 40 cents per share distributed to holders of the one class stock exceeded net earnings by 5 cents. To a considerable extent earnings in 1946 were affected by fire damage in a mine and labor shortages. But higher prices for silver (following recent decline) and lead in the current year may bring an improved showing. A year ago last April Sunshine shares sold as high as 24, in contrast with a peak of 13⅝ thus far in 1947 and a recent price of 9. Although the company's financial position is exceptionally strong and the current 10 cents per share quarterly dividend seems safe, this stock does not appear to be in the bargain class, nor for longer term appreciation does it seem particularly attractive.

Solar Aircraft Company

Market action of shares in this company during the past year has closely followed the pattern just discussed for the preceding concern in this article. That is to say, from a 1946 top price of 29⅝, the shares slipped down to 15¼ by early 1947 and recently were quoted around 9. Such a performance has proved disconcerting to some of the company's shareholders. In part, of *(Please turn to page 400)*

Statistics on Stocks Disturbing Investors

	Current Ratio (Assets to Liab.)	Net Per Common Share: Pre-War 1938-41 Average	War 1942-45 Average	Fiscal Year 1945	Fiscal Year 1946	1947 Interim	1946 Dividend	1946-47 Price Range	Recent Price	Price-Earnings Ratio
American Tel. & Tel.	1.4	$10.36	$8.95	$8.78	$10.12	$10.09 Fe12	$9.00	200¼-149¾	$155	15.3
Burry Biscuit	4.6	def.29	.37	.55	.24	......	Nil	12¼- 3½	4	16.6
Lambert	2.3	1.69	2.59	2.97	4.52	.70 Mr3	1.87½	68 - 28	30	6.6
Solar Aircraft	1.8	.18	1.47	1.76	.86	......	.60	29⅝- 7¼	9	10.4
Stokely Van Camp	4.0	def.45	2.33	3.51	5.32	......	5% Stock	39¾- 14¾	17	3.2
Sunshine Mining	6.3	1.93	.62	.54	.35	.14 Mr3	.40	24 - 8⅝	9½	27.1

Fe12—For 12 months ended February 28.
Mr3—For 3 months ended March 31.

FOR PROFIT AND INCOME

Whither?

Up to this writing the rally from the mid-May low lifted the Dow industrial average by about 9% at maximum. This is moderately better than any previous sustained upward move, without corrective set-back, during the bear market so far, with the exception of the rise from the November 22 low to the January 6 high, which was also roughly 9%. Where do we go from here? If there is to be a further "summer rise," running into July or August, probably the market has got to kill some time through a partiál retreat or sidewise drift or both. Otherwise, at the pace of recent week, prices would soon be high enough to bring out volume selling. Assuming this is an intermediate upward trend, with something left—which, of course, can be nothing more than a guess—it might well be a two-phase affair, as was the autumn-winter recovery. The latter began from what was virtually a double bottom at the October-November lows, just above 163 (Dow industrials). The first phase ran to early January, amounting as noted before to about a 9% rise. Then there was a 10-day reaction of about 7 points, nearly 4%, followed by a second phase from the January 16 low amounting to not quite 8%. The total rise from the bear market low to February 8 high was around 13% — but three-quarters of it was over at the top of the first phase (by January 6).

Gamble

It might as well be noted, although it should be obvious, that "playing" for rallies in what is presumptively a bear market, is pretty much the same kind of gamble as trying to make money on the short side by guessing the timing and extent of reactions in a bull market. In either type of operation, the odds are against success, although the short-seller is under greater technical handicaps as a result of SEC rules and the operation of taxes. Otherwise, the chances for being right at just the right time are about the same, and rather slim. If this is a bear market rally, very likely the greater part of it has been seen in points, even if it runs on considerably further in time.

Precedent

It is true enough that for years there has been a pretty consistent seasonal tendency toward "summer rise" — but the implication that this is an invitation to a speculative picnic can stand some debunking. If you take the low in the industrial average for the two-month period May - June (from whichever month it falls in) and the high for the two-month period July-August, some profit has been possible, on paper, in every year for 50 years back. Sometimes it was large, sometimes small. But what chance would anyone have to detect the exact low or high? And consider this situation: an early July high above the May-June low — thus upholding the record — but a sharp sell-off before the end of July. Here are some statistics that may be pertinent. The industrial average has shown a significant net gain for the month of July in 22 out of the 50 years, little change in 16 years, net declines in 12 years. For August the

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		Latest Period	Year Ago
Dana	9 mos. May 31	$5.07	$ .01
Davega Stores	Year March 31	5.47	.97
Dayton Rubber	6 mos. April 30	2.31	1.22
Detroit Edison	12 mos. May 31	1.82	1.34
Longines-Wittnauer Watch	Year March 31	2.23	1.12
National Mallinson Fabric	eYar May 31	4.26	1.98
	5 mos. May 31	9.15	4.88
Singer Manufacturing	Year Dec. 31	16.92	15.98
United States Plywood	Year April 30	3.71	.99
Valspar	6 mos. May 31	.63	.59

score for the month has been: worthwhile advance in 21 years, little change in 20 years, declines in 8 years. Don't write in to tell us that this foots up to only 49 years. We know it. The Exchange was closed in August 1914 (but not in July) on account of the outbreak of the First World War. The point illustrated here is that it is not especially difficult to lose money within the good old summer time. Now if you want to guess whether this rally has topped — or, if not, where it will — go ahead. This column would rather not take such chances with your money.

Earnings

With the first half-year about over, there is less chance for a decline in 1947 corporate earnings (in the aggregate) than there seemed to be at the start of the year. This is because, with business recession quite spotty rather than general as yet, a half-year of high-level profits is already in hand; and because, on present indications, business activity and earnings probably will hold at a good level for the third quarter. If so, that means nine months of high profits, whereas only the second half of last year saw comparably high earnings. On this reasoning, it would take a quite poor fourth quarter to hold profits to about the 1946 total, and a nose-dive to pull them much under the 1946 total. Either is, of course, possible; but this column would not be surprised if earnings are around 5% to 10% better than last year's. They are virtually certain to be considerably higher in a number of important industries—too many to be itemized here.

Bullish?

Is the point made on earnings bullish? From one view, yes; from another, no. On the one hand, good earnings for additional months should logically make many investors more reluctant to sell stocks. On the other hand, if earnings are on an all-time high plateau, as they no doubt are, that means that they cannot rise further on a quarter-to-quarter basis, which takes a good deal of the usual allure out of speculation — or investment for capital gain, if you prefer the term; and which also means that the next major change, whenever it begins, must be downward. It is not possible to figure that premise as basically bullish. Should the recession be really long deferred — while more and more pent-up demands are filled — it might not be a recession at all. Instead, it could be a depression. Is that looking too far ahead? Maybe — but the last bull market looked ahead a long distance, starting roughly four years ahead of nearly-completed postwar reconversion and the ensuing peacetime business boom. Even if stocks do not go importantly under previous lows in the averages — which remains to be demonstrated—this column reasons that a variety of doubts and uncertainties about the future probably will suffice to limit the rallies and preclude a sustained "real thing" as far as we can see around the present corner.

Leadership

On the whole, good-grade stocks of large and prominent companies have met with pretty staunch support on every market sell-off of the past seven months or so, and have had most of the spotlight on the recent rally. From this it is argued that "good investment demand" is at work, influenced mainly by yield considerations. Maybe so. Yet you do not see this demand for preferred stocks, nor for bank stocks nor for operating utility equities — at least not so far. And there is an unusually strong preference for the "best names" among industrialists: for example, for Woolworth over Kress; for Standard Oil of New Jersey over Phillips Petroleum; for American Tobacco over Philip Morris, etc. This column suspects it is not so much a matter of yields as a partial revival of speculative-investment confidence, based on the absence of definite and general business recession as yet, after months of cautious waiting and watching. In short, many of these buyers are operating for capital gain primarily, but hedging the rise in their own minds by buying only "the best" and with the idea that, even if the purchases prove more or less premature, there will be a pretty good dividend return. This is not quite the same thing as buying income return. Obviously, that can be bought cheaper when the market is weak than when it is strong.

Yields

At the May low in the market the average yield on representative industrial stocks was a little over 5%, against about 2.45% for high-grade industrial bonds. Assuming security of dividends, stocks unquestionably are a lot more attractive, in relation to the best bonds, than they were at an average yield well under 4% at the bull-market high. But two qualifications need to be added to that statement. One is that average stock yields have substantially exceeded 5% in many periods for months on end, and not only at the extremes of major bear markets. The other is that, to the extent that income-yield factors affect stock prices, the bulk of such demand comes from well-to-do investors, rather than "little people," and to such investors the net yield, after income tax, is the controlling thing. For them, the average yield of 5% gross, heretofore cited is a meaningless generalization. For the man in a tax bracket of $10,000 to $25,000, it takes roughly two-thirds more gross dividend return now to equal the net return of 1937. Adjusted for taxes, each dollar of dividend income is worth less, net, than it was before the

(Please turn to page 401)

DECLINES SHOWN IN RECENT EARNINGS REPORTS

		1947	1946
Allied Stores	April 30 quarter	$1.39	$2.86
American Light & Traction	12 mos. March 31	1.37	1.59
Crowley Milner	April 30 quarter	.15	.76
Federated Department Stores	May 3 quarter	1.05	1.68
Philip Morris	Year March 31	2.04	2.67
Publicker Industries	March 31 quarter	.91	2.86
Schenley Distillers	9 mos. May 31	7.62	10.48
Seiberling Rubber	March 31 quarter	.66	.91
Todd Shipyards	Year March 31	6.77	12.33
Washington Gas Light	12 mos. April 30	1.55	2.06

Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET *will* answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. This service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities* at reasonable intervals.
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*
4. No inquiry will be answered which is mailed in our postpaid reply envelope.
5. Special rates upon request for those requiring additional service.

Cornell Dubilier Electric Corp.

Please advise what products Cornell Dubilier Electric Corporation manufactures and company's prospects.

T.D., Balitmore, Md.

Cornell Dubilier Electric Corporation is the largest manufacturer of capacitors in the United States. While General Electric and Westinghouse are among the competitors, these are also customers for the company's various products which are more economical to purchase from Cornell than to include in their own diversified production. Capacitors or fixed electrical condensers are used in radio communications and transmission equipment, and fluorescent lighting equipment, and other electrical instruments.

For the fiscal year ended September 30, 1946, company earned \$2.07 a share, compared \$1.37 in 1945, \$1.71 in 1944, \$1.80 in 1943; earnings during the war years were adversely affected by renegotiations and taxes. However, we expect earnings this year to amount to about \$4.00 or so per share. The common stock is therefore selling on a conservative price-earnings ratio for at least the near term.

Consolidated balance sheet as of September 30, 1946 showed a strong financial condition notwithstanding substantial expenditures for major enlargements of company's manufacturing plants. Total current assets amounted to \$7,833,565, as compared with total current liabilities of \$2,323,072 and net current assets of \$5,510,493. Cash alone amounted to \$2,027,512 or 87% of total current liabilities and the current ratio was 3.3 to 1.

With the company's capital expenditures for increased capacity largely taken care of, considering its liquid financial condition. It is possible that the present annual dividend rate of 80c distributed in recent years will be increased.

Capitalization consists of 19,600 shares of \$5.25 cumulative series "A" preferred and 423,000 shares of common stock outstanding.

Beatrice Foods

Kindly advise late sales and outlook for Beatrice Foods.

Mrs. O.F., Atlantic City, N. J.

Dollar sales of Beatrice Foods Company during March and April increased 28% over last year, despite the fact that prices of butter and cheese were declining during these two months, a procedure which would reduce dollar sales volume if unit sales were not rising.

Sales for March and April—the first two months of the current fiscal year—totaled \$27,295,000, compared with \$21,259,000 in the like two months last year. Profits for March and April were slightly ahead of 1946, according to the President of the Company, but earnings in May were not expected to equal May of last year. For quarter ended May 31, 1946, company had net profit of \$683,627.00 or \$1.21 per common share, on sales of \$32,626,841.

Beatrice Foods will continue to exercise caution on inventories. Last year, as the result of special sales effort, inventories were turned over $28\frac{1}{2}$ times. The company is out to top last year's record sales of \$170,006,283, and has set up possible sales of \$200 million for the current year as "a mark to shoot at."

Beatrice Foods Company (formerly Beatrice Creamery Company) reported consolidated net profit for fiscal year ended February 28, 1947 of \$5,364,666 equal to \$10.03 a common share, compared with net profit of \$2,955,193 or \$5.28 a share in previous year. Dividend payments in 1946 amounted to \$2.05 a share and dividends including extras totaled \$2.50 a share up to April 1st thus far in the current fiscal year.

Capitalization consists of 59,862 shares of $3\frac{3}{8}$% cumulative convertible preferred and 511,792 shares of common stock outstanding.

Competition in the food industry is intensifying and profit margins will probably be narrower for the balance of the year.

Philip Morris & Co., Ltd.

Please furnish late earnings report of Philip Morris & Co. and dividends.

E.S., Plainfield, N. J.

The company has just issued its annual report for the fiscal year ended March 31, 1947, which shows shows its growth since 1937 has been unprecedented. Sales have risen from \$55,600,000 in the 1938 fiscal year to the present level of \$171,000,000. This increase of about 208% coincided with a 120% increase in the industry as a whole. The company's consolidated balance sheet as of March 31, 1947, showed a fine improvement in its financial condition with total current assets of \$109,227,074 as compared with total current liabilities of \$14,640,322 indicating net working capital was at an all time high of \$94,586,762. Current assets were more than seven times current liabilities, a very fine ratio.

(*Please turn to page* 399)

Keeping Abreast of Industrial and Company News

Far above normal demand, seemingly sure to continue for more than a year to come, enhances the outlook for the oil industry. Recent allocation of deliveries to dealers throughout the Midwest attests to the approaching strain likely to be shouldered by the refiners in fully meeting the needs of manufacturers, transportation and home owners.

According to Eugene Holman, president of Standard Oil Co. of New Jersey, in a recent address, the possible tight situation ahead will not be attributable to scant crude oil reserves. While drilling new wells must be pushed harder than ever, the real problem rests in expanding facilities for processing and transport fast enough to provide a desirable margin of safety.

Hence the announcement by William R. Boyd, president of the American Petroleum Institute, that this industry plans record capital investments of more than $4 billion dollars during 1947 and 1948, comes with unusual interest. An outlay of this size represents more than 22% of the present total capital investment of this, the Nation's second largest industry.

Of probable significance to investors, also, is Mr. Boyd's belief that funds for the major part of this immense program will come from earnings to be plowed back into the business, although new financing may be relied upon to some extent. This assuredly reflects confidence in medium term earnings, although distributions to shareholders may not be generally increased for a time.

In the current race for industrial modernization, the Chevrolet Motor Division of General Motors Corporation claims first place in opening its huge postwar assembly plant, and a little later on will have a second one in operation. On a 29 acre area in Flint, Mich., 80 cars an hour are expected to roll from the assembly lines. The second new plant will be located in Van Nuys, California.

As combined wartime experience of engineers, architects and contractors has been responsible for this highly mechanized unit, its cost cutting results may hearten both management and shareholders, and spearhead the approach of a new phase of our economic progress. Nearly four and a half miles of conveyors are used to speed output and save human effort.

Plywod as a competitor for other kinds of material seems to be making strides, judging from the experience of United States Plywood Corporation during its fiscal year ended April 30, 1947. Volume soared to $43.6 million, against $27 million in the previous year, and net per share climbed to $3.71 compared with 99 cents.

Slowly but surely, King Coal is about to challenge Diesel power with the world's largest passenger locomotive, one of three to be used by the Chesapeake & Ohio Railway before long. This 100 miles per hour, 6,000 hp giant stokes coal automatically to superheat steam for a turbine that motivates two electric generators producing 4,000 kilowatt hours of electric energy. Baldwin Locomotive Works expects to deliver the locomotive in August.

So fast has been the uptrend in demand for natural gas that pipeline capacity has been far over strained and many cities are experiencing a shortage. How this affects gas appliance producers is shown by Dresser Industries. Though over-all sales and profits of this concern were well up or the second quarter, backlog orders for gas appliances declined by about $15 million.

Prophets of a depression like that of the 1930's forget the value of experience as a teacher. The Equitable Life Assurance Society of the United States, for example, says that during that last dismal period it acquired 9,000 farms, with a book value of $80 million. Now it owns only 50 farms, and in appraising mortgages, uses 70 cents wheat, 10 cents cotton and 54 cents corn as a norm for figuring values of land.

How the farmer, too, has taken a page from sad lessons of experience, is shown by the Department of Agriculture. Technology, they point out, has leveled seasonal farm work. Farm production at today's high level takes only two thirds as much labor as in 1920 for an equal output. And the percentage can well continue to steadily drop.

"Too many manufacturers are standing with one foot in the past and the other on a banana peel", was a recent comment by H. A. Toulmin, Jr., president of the Hydraulic Press Manufacturing Co. They are those who walk themselves into a depression by making the "Same old products in the same old way, year after year", he points out, and quite correctly.

While on the subject of insurance, the Institute of Life Insurance points to a $6 billion gain in policies during the first half of 1947 as a remarkable demonstration of American thrift in the face of rising living costs and the return to the markets of many tempting goods. 73 million people in our country now enjoy insurance protection.

How a rapid turnover helps to lessen inventory hazards is well illustrated in the report of F.W.Woolworth Company for the year ended May 31, 1947. Sales of this huge concern for the first four months of the current year were $164.4 million, and in the process 75% of all inventories held at the beginning of the year were liquidated.

An imaginative bus manufacturer, in collaboration with a builder of yachts, has just delivered its second "Executive Sleeper Coach". Aside from a luxurious office, this vehicle has two double staterooms, toilets, air conditioning and a radio telephone. The owner plans to visit his plants in a 1,000 mile circuit in decided comfort and regardless of timetables.

Typical of American enterprise is the growth of Radio-Corporation of America. In 1919, this concern had 457 employees compared with 40,600 now. During the past ten years alone RCA has distributed more than $60 million in dividends and increased its net worth by $39 million more. But labor complexities have increased, too, for RCA now has to deal with 37 separate unions.

According to D.B.O'Keefe, president of Gas Appliance Manufacturers Association, the future for his industry is indeed bright. During the next five years alone, he believes the demand for gas ranges in the United States and Canada may exceed 25 million. To support his predictions, he points out that within five years 18 million ranges now in use will be more than ten years old and require replacement.

Science has added a new word to its difficult vocabulary, "Geobotany". To assist in discovery of gold, silver, iron and many other minerals, a techique has been successfully developed whereby plant life reveals hidden deposits. Spectroanalysis of burnt leaves and stems tells the story.

Opportunities...

for Income and Price Appreciation

IN BONDS And PREFERRED STOCKS

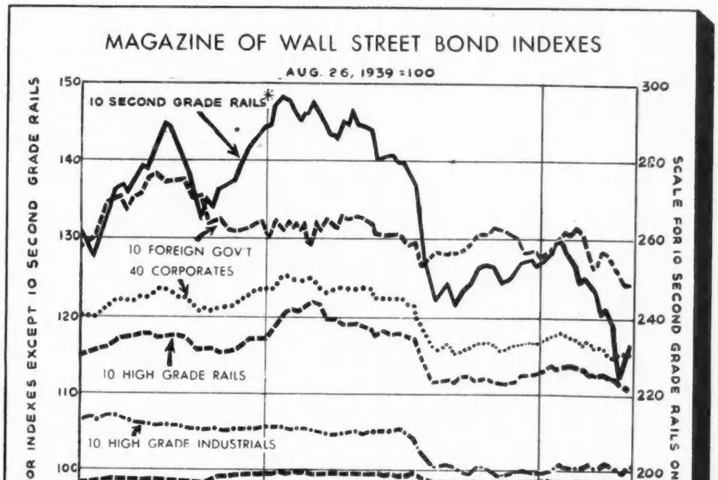
By JACKSON D. NORWOOD

THE MAGAZINE OF WALL STREET'S INDEX OF BOND PRICES showed the following changes for the period indicated.

	On April 1	On June 20	
40 Domestic Corporations	116.6	114.6	— 2.
10 High Grade Rails	113.3	111.3	— 2.
10 Second Grade Rails	247.2	234.4	—12.8
10 High Grade Utilities	98.4	98.3	— .1
10 High Grade Industrials	100.8	100.2	— .6
10 Foreign Governments	126.4	123.7	— 2.7

After a lapse of about two months, we are once more presenting a survey of the markets represented by Bonds and Preferred Stocks, and accordingly have based our comparisons upon the entire interval rather than for a two weeks period as customarily. In a way this makes for a rather more interesting study, in that trends over the longer interval are more clearly marked than ordinarily could develop during a relatively short space of time. Since mid April a good deal has been going on in both domestic and foreign scenes, of both an economic and political hue, with consequent reflection in the prices for senior securities.

At a glance it will be noted that prices for all kinds of issues under discussion have trended downward, although to markedly divergent degrees. It should be remembered, moreover, that the statistics shown do not reveal shorter interim changes that occured, and are merely the net result of price fluctuations over ten weeks time. For example, although the traditionally volatile Second Grade Rails show a 12.8 point decline since April 12, during the last two weeks of the period under review they rose to their present level from a point of 229.8 to 234.4. As always happens in this speculative division, bond prices readily reflect changing currents of stock prices in the general market. In view of the rather strong, or at least well sustained, recent uptrend for prices of equities, the Second Grade Rails, though significantly lower than in April, actually have been trending up from their recent lows of late. Whether they will hold or extend the gains mentioned, of course, depends upon the near term course of Wall Street stock prices.



In scanning the different segments of our table, the dip in prices for Foreign Government bonds perhaps holds special interest. In registering a net decline of 2.7 points to the level of 123.7, average prices for the ten bonds used in our calculations are now lower than at any time since March, 1944. In breaking down the tally, it seems apparent that a wide divergence in volatility among these special issues has evolved. Prime issues of Australia, Norway and Buenos Aires, for in-

stance, have registered an interesting degree of stability. Poland 8's, on the contrary, have zipped off to an extent of about 22% during fairly recent weeks, Brazilian 6½s trailing them down by 20%, Greeks 6s by 12% and Denmark 4½s by 8%. Unsettled political and economic conditions throughout the world have brought on quite a wave of liquidation for foreign bonds of various description, it will be noted. Even relatively stable issues such as Canada 4s have felt the pressure moderately, and have sagged by about 2%.

In the other brackets of our table, it will be seen that High Grade Utility Bonds have held practically firm pricewise for many weeks past and almost the same thing could be said of High Grade Industrials. As a rule, issues of this kind are concentrated in the portfolios of large institutions, estates and trusts, and their scant supply in the market precludes significant price changes in ordinary times. To some extent this is also true of High Grade Rails and Domestic Corporate Bonds of various character. Pending a possible further upward trend in rail rates, bonds of the carrier roads have softened in price on an average of 2 points, due to generally unimpressive earnings. To a similar extent, also, the Domestic Corporate issues appear to have suffered as to price, pending clarification of the many uncertainties now clouding the economy.

CONVERTIBLE PREFERRED STOCKS: On the heels of a prolonged downtrend in prices for equities, it has been only natural that numerous preferred stock issues convertible into junior issues have declined sympathetically. Varying terms of the respective convertible privileges have either stimulated or eased the downward price movement. Senior issues of this special kind, of course, carry a dual appeal from priority as to dividends and a speculative call upon their junior stocks at future periods. During strong markets this latter advantage often pushes the price of the preferred up to levels where the income yield is largely disregarded in favor of speculative potentials alone, and often to a point where quotations exceed the call price for the preferred, thus exposing the buyer to a risk of definite loss, should the issues be retired before the convertible privileges become of value. Under current market conditions it is interesting to note the revised status of many convertible preferred compared with a year ago. While in some instances the significantly lower prices for the equities have tended to lessen the speculative appeal of the preferred at present levels, a possible future uptrend in the stock market would narrow the gap and restore the speculative advantage. Meanwhile it will be discovered that by careful selectivity, it is now possible to disclose a number of situations where convertible preferred enjoying sound fundamentals are available at prices that permit a considerably better yield than in mid 1946, thus making them more attractive to investors dependent upon a fair income return. And over the longer term the convertible privilege may result in capital gains without the hazard attached to a purchase of the equities. In deciding upon a preferred of this special kind, it is highly important to study the convertible privileges with great caution, for some of them may expire at an undesirably early date, and other terms of the privilege may vary in wide degree. The appended table lists a few issues which for one reason or another seem to warrant investor confidence, though for lack of space it is impractical to discuss them in detail. To assist our readers, however, we will comment on a few chosen examples, in order to show the varying lines of reasoning essential for this medium.

Attractive Convertible Preferreds

	1946-47 Price Range	Recent Price	Call Price	Current Yield
Allis Chalmers $3.25	$99 -$91⅛	$92	$103	3.5%
American Woolen $4.00	105¼- 68½	76	105*	5.3
Atlas Powder $4.00	135 -113½	117	114**	3.4
Beatrice Foods $3.37½	118¾-103½	105	106	3.2
Beneficial Ind'l Loan $3.25	112½- 96¾	97	107	3.3
Carrier $2.00	60 - 34¼	38	53	5.3
Commercial Credit $3.60	123 -103½	105	106†	3.4
Electric Boat $2.00	48¾- 33¾	38	52½	5.3
General Mills $3.37½	123 -110	110	104	3.0
Gillette $5.00	108 -102½	105	105	4.7
Houdaille-Hershey $2.25	56 - 46	47	52½	4.8
Johns-Manville $3.50	153 -110	120	104	2.9
Minn-Honeywell $3.20	119¾-103½	106	110	3.0
Oliver $4.50	119½- 97	100	104	4.5
Pure Oil $5.00	115½-106⅞	108	105	4.6
Thatcher Glass $2.40	61½- 47	53	60	4.5
Thermoid $2.50	70 - 48	52	57½	4.8
Wheeling Steel $5.00	107¼- 86	100	105	5.0
Worthington Pump $4.50	103 - 84	89	100	5.0

*Callable on and after September 1, 1951.

**At 113 from August 1, 1947 to August 1, 1948.

†Beginning October 1, 1948.

ALLIS CHALMERS MANUFACTURING COMPANY

3¼% convertible preferred—Aside from $15 million 2% debentures due 1956, 359,373 shares of this preferred stock represent the senior capitalization of this strong and long established manufacturer of farm equipment and heavy industrial machinery. Only for ten months past has the issue been outstanding, having been subscribed largely by common shareholders last September at $100 per share. At a recent price around 92, a yield of 3.53% is obtain yield of 3.53% is obtainable compared with 3¼% last fall. At current levels the shares are selling 11 points below their redemption price of 103 and accumulated dividends. During an indefinite period ahead, the convertible privilege will permit an exchange of 1 share of the preferred for 2 shares of common, the latter recently selling around 36. Hence at 92 for the preferred, the common shares would have to sell at 46 to establish parity for an exchange. As during the 1938-41 period the price for the common reached a peak of 55¾, 56⅛ during war years and 62¾ in the 1946 boom, it can be envisaged that as time passes, the convertible privilege may acquire a realistic value again. Allis Chalmers, except during a few depression years, has enjoyed a profitable record for decades past until one of the longest strikes in history hampered its operations last year. Now that this has been settled and the new Labor Law may force the troublesome Communist union leaders out of the scene, the company's medium term prospects are bright. In the farm equipment field, in which it is one of the outstanding leaders, wartime experience and fat pocket books assure wide spread demand for agricultural mechanization. About 40% of the company volume *(Please turn to page 400)*

The BUSINESS ANALYST

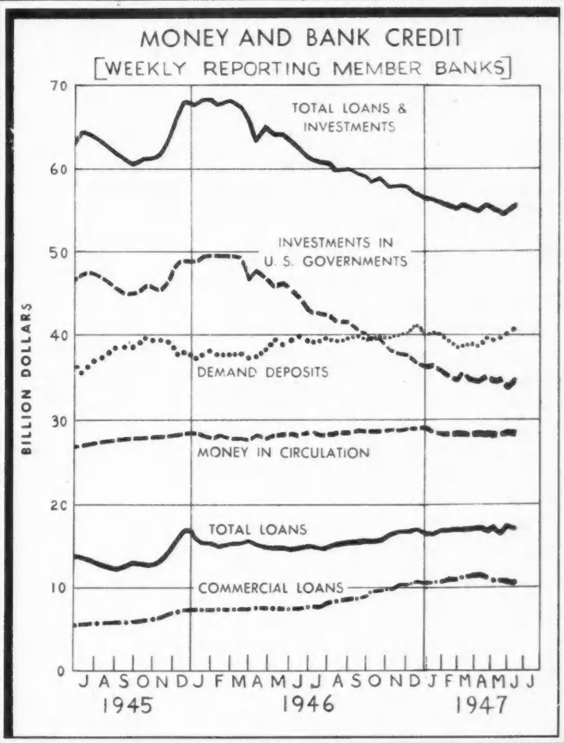
SUMMARY

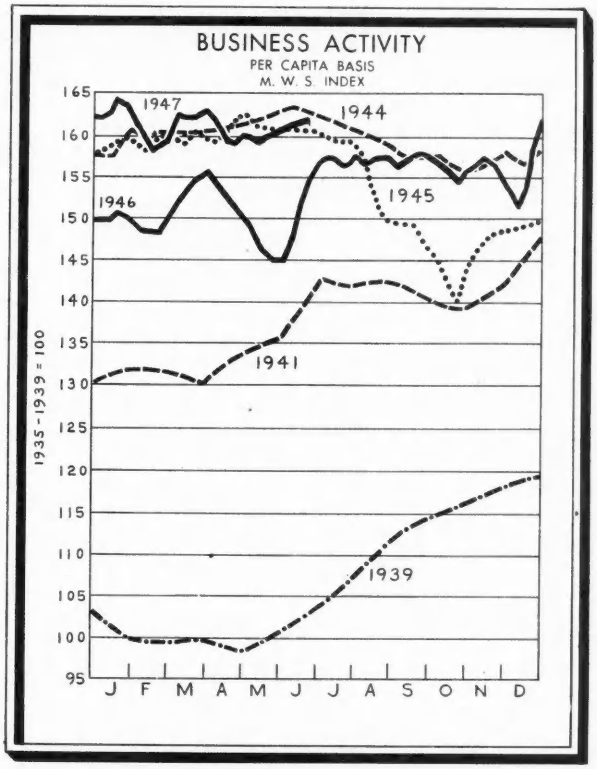
MONEY AND CREDIT—On Oct. 15 the Treasury will redeem in cash the outstanding $758.9 million of its 4¼% bonds of 1947-52, which were marketed shortly after World War I. They are the only U. S. 4¼s now outstanding. Their redemption will save the Government $3.2 million a year in interest payments. Foreign silver at New York dropped 11 cents since our last issue to lowest price since Sept., 1945. India has banned imports of the metal and domestic consumers have withdrawn from the market for mid-year inventory taking, and in anticipation of the July vacation period when silver processors close down.

TRADE—April sales at wholesale 22% above last year, and department store sales up 7% in fortnight ended June 14. Merchants again begin to order more freely, finding that predicted depression is not materializing. Output of men's woolen suits at record annual rate of 27.5 million.

INDUSTRY—Business activity close to all-time high. First quarter dividends biggest ever. Bank earnings improve in second quarter, but still under last year.

COMMODITIES—Delayed planting pushes cash corn up to highest price in history. M. W. S. index of raw material spot prices rises to new high since its inception in 1932.





The Nation's physical volume of **Business Activity** continued to expand slowly during the fortnight ended June 14, and almost duplicated the all-time high touched during the last week of March.

* * *

Plant executives, particularly in the steel industry, are again weighing the possibility of another serious **Coal** shortage. The miners will quit work June 28 for a ten-days' vacation. Before this is over the Government will have returned the mines for private operation, and only John L. Lewis knows how long that vacation may be extended. A coal shortage has become one of the major material obstacles to expanding production throughout the so-called "civilized" world.

* * *

Rising living costs and attractive pay are again luring **Women Back to Work.** The Census Bureau estimates that 16.6 million women were gainfully employed in early May—largest number since Nov., 1946, and 300,000 more than in May, 1946.

* * *

Sales at wholesale during April were 22% above the like month of 1946 in dollar total; but department store sales in the fortnight ended June 14 were only 7% above the like period last year, compared with a cumulative increase of

(Please turn to the following page)

Inflation Factors

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor
MILITARY EXPENDITURE (tf) $b	June 18	0.27	0.24	0.36	0.43
Cumulative from Mid-1940	June 18	355.6	355.3	337.8	14.3
FEDERAL GROSS DEBT—$b	June 18	257.2	257.3	268.8	55.2
MONEY SUPPLY—$b					
Demand Deposits—101 Cities	June 18	40.5	40.3	39.9	24.3
Currency in Circulation	June 18	28.2	28.3	28.1	10.7
BANK DEBITS—13-Week Avge.					
New York City—$b	June 18	6.79	6.77	7.34	3.92
100 Other Cities—$b	June 18	9.67	9.70	8.15	5.57
INCOME PAYMENTS—$b (cd)	Apr.	14.06	14.69	12.96	8.11
Salaries & Wages (cd)	Apr.	9.26	9.29	8.54	5.56
Interest & Dividends (cd)	Apr.	0.95	1.47	0.89	0.55
Farm Marketing Income (ag)	Mar.	1.84	1.70	1.37	1.21
Includ'g Govt. Payments (ag)	Mar.	1.90	1.74	1.42	1.28
CIVILIAN EMPLOYMENT (cb) m	May	58.3	56.7	54.8	52.6
Agricultural Employment (cb)	May	9.0	7.9	8.9	8.9
Employees, Manufacturing (lb)	Apr.	15.4	15.5	14.0	13.8
Employees, Government (lb)	Apr.	5.4	5.4	5.7	4.8
UNEMPLOYMENT (cb) m	May	2.0	2.4	2.3	3.4
FACTORY EMPLOYMENT (lb4)	Apr.	153	154	139	147
Durable Goods	Apr.	180	181	156	175
Non-Durable Goods	Apr.	131	133	125	123
FACTORY PAYROLLS (lb4)	Apr.	310	314	255	198
FACTORY HOURS & WAGES (lb)					
Weekly Hours	Apr.	40.0	40.4	40.5	40.3
Hourly Wage (cents)	Apr.	118.6	118.0	105.8	78.1
Weekly Wage ($)	Apr.	47.44	47.72	42.88	31.79
PRICES—Wholesale (lb2)	June 14	147.6	147.9	111.8	92.2
Retail (cdlb)	Apr.	177.1	177.2	144.8	116.2
COST OF LIVING (lb3)	Apr.	156.1	156.3	131.1	110.2
Food	Apr.	188.0	189.5	141.7	113.1
Clothing	Apr.	184.6	184.3	154.5	113.8
Rent	Apr.	109.0	109.0	108.4	107.8
RETAIL TRADE—$b					
Retail Store Sales (cd)	Apr.	8.81	8.75	7.71	4.72
Durable Goods	Apr.	1.98	1.86	1.43	1.14
Non-Durable Goods	Apr.	6.83	6.89	6.28	3.58
Dep't Store Sales (mrb)	Apr.	0.75	0.76	0.69	0.40
Retail Sales Credit, End Mo. (rb2)	Apr.	4.59	4.47	3.19	5.46
MANUFACTURERS'					
New Orders (cd2)—Total	Apr.	240	249	203	181
Durable Goods	Apr.	278	287	219	221
Non-Durable Goods	Apr.	218	225	194	157
Shipments (cd2)—Total	Apr.	286	289	206	184
Durable Goods	Apr.	322	314	203	223
Non-Durable Goods	Apr.	261	272	208	158
BUSINESS INVENTORIES, End Mo.					
Total (cd)—$b	Mar.	38.2	37.1	27.7	26.7
Manufacturers'	Mar.	21.6	21.2	16.8	15.2
Wholesalers'	Mar.	6.7	6.5	4.4	4.3
Retailers'	Mar.	9.9	9.4	6.5	7.2
Dept. Store Stocks (mrb)	Mar.	2.1	2.0	1.4	1.4

PRESENT POSITION AND OUTLOOK

(Continued from page 395)

10% for the year to date. Seeing that the predicted depression is not materializing, and that prices are hardening, buyers for leading retail stores are beginning again, cautiously, to step up the volume of their **New Orders.**

* * *

Prices of men's woolen suits are heading upward, though output is at a record annual rate of 27.5 million. Production of the American Woolen Company's Assabet and Brown mills, which make **Woolen Goods,** and of all the Company's worsted mills, has been all sold up to October. Assabet is the world's largest woolen mill.

* * *

It is predicted in the trade that **Lead** supplies may catch up with demand by summer, and **Steel** by the year-end, if current high rates of production can be maintained. Foreign **Silver** is already in over supply, for the time being at least, as proved by the sharp price decline in that metal at New York during the past fortnight. Imported **Copper** has dropped back to the price commanded for domestic-mined copper. Considerations such as these, plus uncertainty as to continuation of the Government's subsidies on the output of high-cost producers, helps to explain why metal shares have been lagging behind the market of recent weeks.

* * *

The Labor Bureau now estimates that **Construction** will be started this year on only 750,000 new homes, against about 1,000,000 last year; but that completions will also number 750,000, compared with only around 600,000 last year. In weighing these comparative figures, it should be noted that permanent homes will contribute much more to building activity this year than last year when temporary living quarters were in more urgent need. Overall demand for building labor and materials will thus be considerably greater this year than last, despite the decline in building permits.

* * *

Should a decline in construction activity occur next year, it will probably be more than offset, in its effect upon employment, by the phenomenal increase in our **Exports,** which are running currently at three times imports, compared with an excess of only 60% before the trade collapse in 1921. Cotton goods exports are about 15 times as great as prewar (measured in dollars), synthetic fabrics 28 times, radios 6 times, and industrial machinery 4 times.

* * *

As Commerce Secretary Harriman points out: We produce perhaps half of the manufactured goods of the world. We are practically the only nation at the present time which can provide a good life for all our own people and at the same

Production and Transportation

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor
BUSINESS ACTIVITY—I—pc	June 14	162.0	161.5	151.7	141.8
(M. W. S.)—I—np	June 14	179.9	179.3	165.1	146.5
INDUSTRIAL PROD. (rb)—I—np	Apr.	187	190	165	174
Mining	Apr.	141	148	104	133
Durable Goods, Mfr.	Apr.	222	225	190	141
Non-Durable Goods, Mfr.	Apr.	173	176	164	141
CARLOADINGS—t—Total	June 14	895	901	868	833
Manufactures & Miscellaneous	June 14	387	388	370	379
Mdse. L. C. L.	June 14	116	117	126	156
Grain	June 14	48	45	46	43
ELEC. POWER Output (Kw.H.)m	June 14	4,702	4,635	4,030	3,267
SOFT COAL, Prod. (st) m	June 14	12.9	13.5	12.4	10.8
Cumulative from Jan. 1	June 14	290	277	211	446
Stocks, End Mo.	Mar.	57.7	49.5	58.5	61.8
PETROLEUM—(bbls.) m					
Crude Output, Daily	June 14	5.1	5.1	5.0	4.1
Gasoline Stocks	June 14	93	95	93	88
Fuel Oil Stocks	June 14	48	47	45	94
Heating Oil Stocks	June 14	38	37	36	33
LUMBER, Prod. (bd. ft.) m	June 14	516	488	480	632
Stocks, End Mo. (bd. ft.) b	Apr.	4.5	4.4	3.4	12.6
STEEL INGOT PROD. (st.) m	May	7.33	7.04	4.07	4.96
Cumulative from Jan. 1	May	35.3	28.0	21.7	74.7
ENGINEERING CONSTRUCTION AWARDS (en) $m	June 19	94	158	106	94
Cumulative from Jan. 1	June 19	2,530	2,436	2,505	5,692
MISCELLANEOUS					
Paperboard, New Orders (st)t	June 14	147	218	136	165
Wood Pulp Stocks, End Mo. (st)t	Apr.	83.3	79.7	77.3	98.5
U. S. Newsprint Consumption (st)t	May	415	407	358	352
Do., Stocks (mpt), End Mo. (st)t	May	391	399	411	523
Hosiery Production (pairs)m	Apr.	156	155	158	150
Portland Cement Production (bbls.)m	Apr.	14.6	14.2	12.7	14.9

PRESENT POSITION AND OUTLOOK

time provide help for other peoples of the world to help themselves."

* * *

It is this enlightened selfishness that has made it possible for the Census Bureau to report our **Employment** in May as the greatest on record, with unemployment close to the lowest. In only three industries was employment lower during April than a year earlier. These were transportation equipment, excluding automobiles; leather and leather products; tobacco manufactures.

* * *

Publicly reported cash **Dividends,** which are about 60% of all dividends, paid during the first quarter totaled $1,117,500,000—a new high record and 21% above last year.

* * *

The President's economic advisers are said to have come around at last to the Business Analyst's opinion that **No** "real" business **Depression Is In Sight.** This will be bad news to anyone who believes in hoodoos; for Government bureaucrats have been screaming "Depression ahead," for more than two years now. It will be recalled aso that, back in 1929, at the peak of the Coolidge "New Era," Administration publicists were proclaiming that there might never be another business depression. Remember that slogan: "Two chickens in every pot; two cars in every garage"?

ag—Agriculture Dep't. b—Billions. cb—Census Bureau. cd—Commerce Dep't. cd2—Commerce Dep't. Avge. Month 1939—100. cdlb—Commerce Dep't. (1935-9—100), using Labor Bureau and other data. en—Engineering News-Record. I—Seasonably adjusted Index. 1935-9—100. lb—Labor Bureau. lb2—Labor Bureau, 1926—100. lb3—Labor Bureau, 1935-9—100. lb4—Labor Bureau, 1939—100. lt—Long tons. m—Millions. mpt—At Mills, Publishers and In Transit. mrb—Magazine of Wall Street, using Federal Reserve Board data. np—Without compensation for population growth. pc—Per capita basis. rb—Federal Reserve Board. rb2—Federal Reserve Board, Instalment and Charge accounts. st—Short tons. t—Thousands. tf—Treasury and Reconstruction Finance Corp.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEX

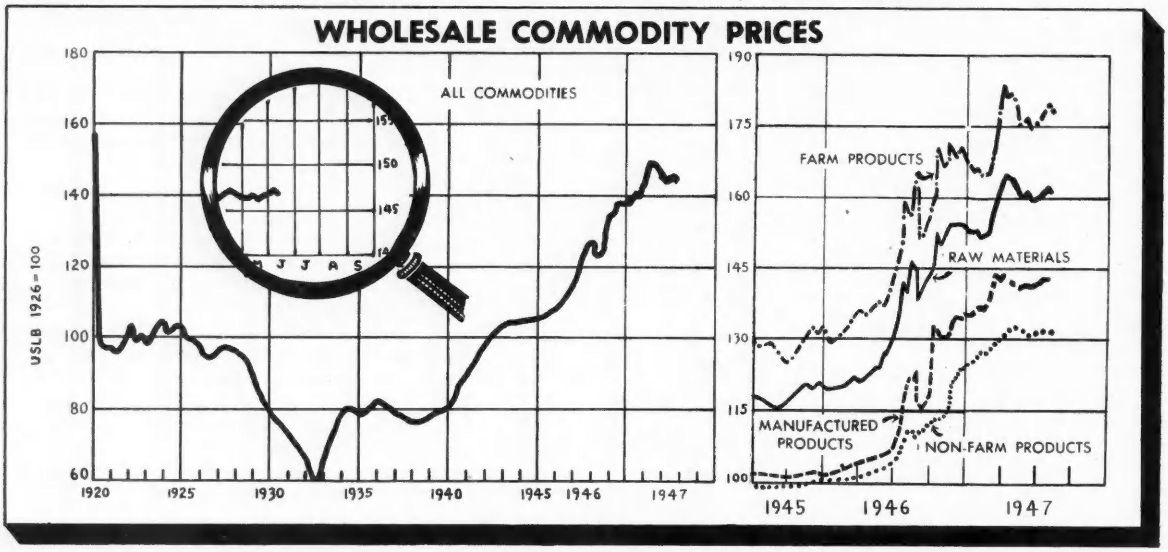
No. of Issues (1925 Close—100)	1947 Indexes High	Low	June 13	June 20
304 COMBINED AVERAGE	148.8	111.5	124.4	126.3
4 Agricultural Implements	188.0	143.4	167.3	170.2
11 Aircraft (1927 Cl.—100)	167.1	108.2	117.6	116.4
6 Air Lines (1934 Cl.—100)	636.9	486.3	505.4	497.0
6 Amusement	146.0	107.9	115.9	114.9
14 Automobile Accessories	237.4	161.9	184.5	189.1
11 Automobiles	42.8	30.8	34.4	35.0
3 Baking (1926 Cl.—100)	24.1	18.9	19.8	19.7
3 Business Machines	301.6	230.8	264.7	262.6
2 Bus Lines (1926 Cl.—100)	175.0	116.1	129.5	132.9
4 Chemicals	245.6	223.8	244.9	244.7
2 Coal Mining	20.1	14.0	15.1	15.5
4 Communication	58.3	40.6	45.3	47.2
13 Construction	66.5	48.0	56.9	57.5
7 Containers	371.5	291.4	318.5	324.6
8 Copper & Brass	113.9	90.9	98.4	98.8
2 Dairy Products	69.7	55.9	58.7	58.8
5 Department Stores	78.6	55.6	67.2	68.4
5 Drugs & Toilet Articles	223.2	149.4	158.2	159.8
2 Finance Companies	255.8	203.3	225.9	230.6
7 Food Brands	190.4	155.2	160.2	161.5
2 Food Stores	73.3	63.6	72.0	73.1
3 Furniture	94.3	66.1	75.2	75.2
3 Gold Mining	924.7	738.4	924.7A	903.4

(Nov. 14, 1936, Cl.—100)	High	Low	June 13	June 20
100 HIGH PRICED STOCKS	89.87	72.58	79.97	80.62
100 LOW PRICED STOCKS	183.14	124.35	139.81	142.83
6 Investment Trusts	62.8	48.3	54.7	54.5
3 Liquor (1927 Cl.—100)	933.6	592.1	686.3	722.6
8 Machinery	159.4	123.1	139.3	142.2
3 Mail Order	129.5	84.2	107.3	113.1
3 Meat Packing	108.7	84.9	92.0	101.0
13 Metals, non-Ferrous	196.7	137.4	153.0	153.5
3 Paper	39.6	31.3	36.3	37.1
23 Petroleum	197.4	172.2	191.8	197.4A
20 Public Utilities	134.4	104.3	110.9	112.4
5 Radio (1927 Cl.—100)	23.2	16.1	17.3	17.8
8 Railroad Equipment	80.6	55.8	62.2	63.7
23 Railroads	27.2	17.0	20.0	20.5
3 Realty	32.9	22.9	26.4	27.4
2 Shipbuilding	114.4	87.4	100.4	99.9
3 Soft Drinks	574.5	462.9	574.5A	571.0
13 Steel & Iron	121.1	90.7	99.5	101.5
3 Sugar	68.2	51.4	56.7	55.0
2 Sulphur	253.8	211.0	225.1	236.5
3 Textiles	128.5	93.8	108.8	110.7
3 Tires & Rubber	41.4	28.8	30.0	31.7
6 Tobacco	87.4	65.2	71.6	73.7
2 Variety Stores	342.5	289.1	319.8	323.2
19 Unclassified (1946 Cl.—100)	108.5	83.7	95.8	95.2

A—New High since 1946.

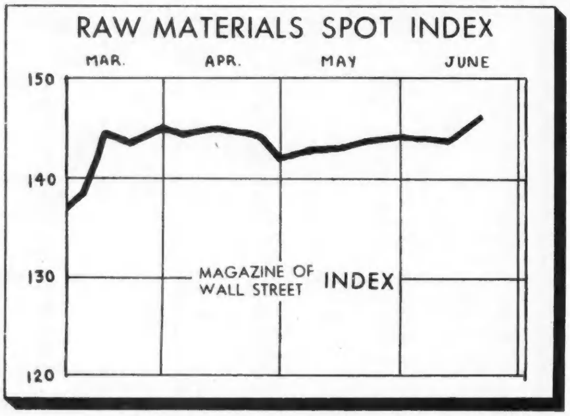
Trend of Commodities

Commodity prices displayed a generally firm tone during the past fortnight. Cash corn crossed the $2.00 line for the first time on record. Stocks of that grain on farms are ample and the Agriculture Department still looks for a 3 million bushel crop this year, despite delayed plantings. On the other hand, nearly 20 million bushels are now under contract for delivery by the end of July, while the current "visible supply" (in commercial warehouses) is only 13 million, and most of this is either marked for export or has been bought by industrial users. Domestic stocks of cotton are the lowest in 19 years, and only 2% of thi is in Government hands against 60% two years ago. Home use plus exports of the staple for ten months ended May 31 were more than 11.5 million bales, roughly equal to recent annual production. Mill takings in May were a little under the like month last year; but demand for cotton textiles and for export is beginning to pick up again. Hence the upturn in prices for cotton. There is little prospect of any material drop in commodity prices in the near future under present conditions of full employment at rising wages, and with export demand at record heights. Trading in futures on the countries various exchanges will be resumed before long in copper, lead, tin, zinc and sugar. This is not to say that resumption in futures trading will be followed by rising prices. In all five of the commodities concerned, supply is beginning to catch up with demand; so that futures may well decline under the belief that contracts can be met later by purchases for cash at lower prices. It happened that way with crude rubber.



U. S. DEPARTMENT OF LABOR INDEX OF 28 BASIC COMMODITIES
Spot Market Prices — August 1939, equal 100

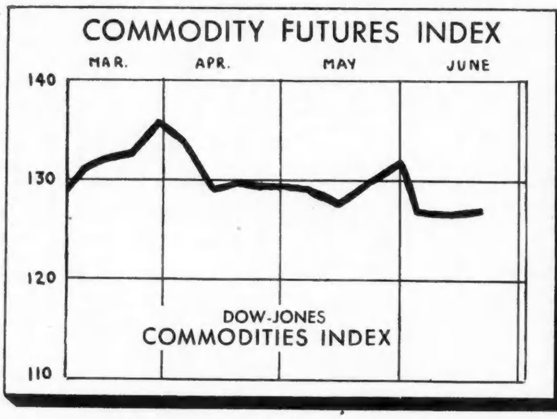
	Date June 21	2 Wk. Ago	1 Mo. Ago	3 Mo. Ago	6 Mo. Ago	1 Yr. Ago	Dec. 6 1941
28 Basic Commodities	299.8	300.5	295.7	333.2	303.1	198.1	156.9
11 Import Commodities	272.0	271.0	273.1	290.6	289.3	171.9	157.5
17 Domestic Commodities	319.2	321.2	311.2	374.1	311.8	217.1	156.6
7 Domestic Agriculture	359.1	351.9	342.0	341.4	309.6	255.2	163.9
12 Foodstuffs	358.9	361.4	347.3	428.9	362.1	227.2	169.2
16 Raw Industrials	261.7	261.3	281.8	285.5	265.0	178.5	148.2



14 Raw Materials, 1923-5 Average equals 100

Aug. 26, 1939—63.0 Dec. 6, 1941—85.0

	1947	1946	1945	1943	1941	1939	1938	1937
High	145.5	128.8	95.8	92.9	85.7	78.3	65.8	93.8
Low	126.4	95.8	93.6	89.3	74.3	61.6	57.5	64.7



Average 1924-26 equals 100

	1947	1946	1945	1943	1941	1939	1938	1937
High	136.55	127.07	106.41	96.57	84.60	64.67	54.95	82.44
Low	117.14	104.21	93.90	88.45	55.45	46.59	45.03	52.03

Answer to Inquiries

(*Continued from page* 390)

This improvement in liquid condition was accomplished through reduction of manufactured stocks and accounts receivable and the application of the $32,000,000 bond issue to reduction of bank loans and outstanding long term debt. While earnings on the common stock were lower than in the preceding year and amounted to $2.04 per share, there were special charges against income in the 1947 period equivalent to 23 cents per share. These included a contingency reserve of $500,000. While the company showed $2.67 for its fiscal year 1946, net income in that year was increased by non-recurring credit of 93 cents a share, including an excess profit tax refund of $1,867,528. The annual report also stated: "Believing that the conditions which affected our net in the past year were unusual, and that eventualities have been amply provided for in a contingency reserve, the directors distributed during the year 85% of these net profits in the form of the regular $1.50 dividend and a 25 cent extra dividend." It was further stated that current earnings amply cover the regular dividend of $1.50 a share and operating efficiency is at a high level and profit margins have increased 25% compared with last year.

Philip Morris & Co. declared the regular quarterly dividend of 37½ cents on the common, selling ex-dividend June 27, payable July 15, 1947.

Balancing Our Trade In Latin America

(*Continued from page* 377)

and Uruguay, has been bearish for Brazil, Columbia and other tropical goods producing countries.

What Is Latin America Buying?

What are Latin American countries buying? In the light of the 1946 figures, machinery and automobiles accounted for about 40 per cent of the total, and the metals manufactures thereof for about 15 per cent; chemicals and miscellaneous manufactures, such as cameras, films and pharmaceuticals, contributed another 15 per cent. At present about 40 per cent of our current output of machine tools is being shipped to the coun-

tries south of the Rio Grande.

The type of goods exported differs, however, from country to country. Chile which is hard pressed for dollars and carrying out a far reaching industrialization program, is spending about three-fourths of her available dollars (from current exports) for machinery and transportation equipment. On the other hand about two-thirds of Cuban imports consist of foodstuffs, textiles and other consumer goods. Mexico and Venezuela are likewise heavy buyers of consumer goods.

As to which Latin American countries are buying our goods, Brazil is in the lead. As will be seen from the accompanying table, she is taking our goods at the annual rate of about $700 million. Mexico, which was the leading importer last year, is this year the second largest with imports at the annual rate of about $650 million. Before the war Brazil and Mexico used to take about $80 million worth of American goods annually. The biggest expansion as compared with our prewar export rate, has taken place in our exports to Ecuador (1,200 per cent), Uruguay (1,100 per cent) and Brazil and Peru (over 900 per cent). The smallest increases were registered in our exports to Panama (350 per cent) and Chile (over 400 per cent).

Opportunities for Income and Price Appreciation in Bonds and Preferred Stocks

(*Continued from page* 394)

normally is derived from sales of electric generators and heavy industrial equipment, for which the demand at present is exceptionally brisk. As Allis Chalmers itself has made strides in modernizing its facilities, has the largest amount of working capital in its long history, and has a huge backlog of orders, its experienced management can be expected to make a good showing for the shareholders in coming months. With fixed charges of every description now at a lower rate than in prewar years, the dividend on the preferred seems unusually well secured, and the current 40 cents per share paid quarterly on the common appears safe, too.

AMERICAN WOOLEN COMPANY $4 CONVERTIBLE PRIOR PREFERENCE STOCK: — Successful consumation of a refinancing program about a year ago brought 159,484 shares of this no par stock into the hands of the investing public. At any time this senior issue may be exchanged for 2 shares of common, unless after September 15, 1951 it is redeemed at 105 and dividends upon 30 days notice. At a recent price near 77, the $4 dividend provided a yield of about 5.2%. As for the convertible privilege, should the common shares rise from their recent level of around 34 to a price above 38½ it is clear that ratably the prior preference shares would respond in price upwards. When the common earlier in 1947 sold at its peak for the year of 50¾, for example, the prior senior issue sold at 103½, slightly over the parity price. In view of a spotty earnings record during numerous prewar years, investors have scanned spectacular 1946 net earnings, equal to $126 per share on the prior preferred and $21.86 on the common, with warrantable caution as to future potentials. During the first quarter of 1947, though, net equal to $5 per share on the common was reported, despite growing evidence that demand for certain grades of yarns and woolens was beginning to slacken. In view of the dominant position of this giant concern, however, and the record breaking purchasing power of the public, it would seem as if volume and profits would have to recede very substantially before endangering the current quarterly dividend rate of 50 cents per share on the common, much less than on the senior issue. The basic character of the goods produced and replacement demand for them should tend to stabilize volume during good times, despite competitive inroads from other fibres. Then, too, the fact that due to refinancing the dividend rate on the senior issue has been reduced from 7% to 4% should help to stabilize annual distributions compared with the unfavorable record of the company in this respect during the early 1930s. With current working capital reported at over $58 million, compared with $30 million a decade ago, the financial condition of American Woolen is indubitably satisfactory. All said the present status of the prior preference shares has elements of considerable interest, and while past performance precludes their inclusion in ultra conservative portfolios, they deserve consideration for their fairly attractive yield and speculative appeal.

Securities Disturbing Investors

(*Continued from page* 387)

course, the current price status is attributable to the omission of dividends during the first quarter. Consolidated net sales for the 11 months ended March 31, 1947 were said to total $11.7 million and on that date unfilled orders amounted to $10.5 million. Solar officials claim that operations currently are on a profitable basis. While this concern for more than a decade ranked as a leading producer of aircraft exhaust manifolds, and still has contracts from the Government and others in the turbine, jet engine and projectile fields, it has gone in heavily for stainless steel products, such as milk pails, and dariy equipment, as well as caskets. Last year's early efforts to diversify were unprofitable but apparently the corner has been turned. As the 1946 balance sheet disclosed a slightly tight position as to working capital, it is probable that near term earnings will be used to build up this item, requiring patience on the part of shareholders. From 1936 to 1946 small dividends were paid regularly, but in widely varying amounts at that. It seems to us that time must elapse to establish earnings potentials under current conditions, and that under the circumstances present shareholders can afford to await developments before averaging at current prices.

Stokely Van Camp, Inc.

At a recent price of 16, the shares of this packer of vegetables, fruits and non-seasonable food products have declined considerably from their high of 39¾ in 1946 and a top price of 24¼ during 1947. Considering that for the first time in a decade, the company initiated cash dividends upon the common last fall, although several stock dividends had previously been declared as time went on, the weakness in the stock has aroused occasional comment. Net earnings of this concern have steadily expanded from a deficit status in 1938-39 to a peak level of $5.32 per share for the fiscal year ended May 31, 1946, and for the year recently ended it is thought that

further improvement will be shown. Sentiment as to general prospects for the canning industry in near term months has not been overly bright, due to possible price declines, over supply of frozen foods and in some cases heavy inventories. Good control of costs and inventories, though, are characteristic of Stokely Van Camp. Reports are that they have adopted wise policies to hold down inventories of seasonal foods in favor of heavier proportions of non-seasonal goods, such as pork products and the like. Profit margins of better than 15% last year were considerably above normal and likely to narrow in the current year for more than one reason. In all probability the forthcoming balance sheet will disclose a partial allotment of earnings to create a reserve against potential inventory losses. As for finances, the $3 million 1¾% serial notes outstanding attest to an exceptionally strong credit position, borne out by a 4 to 1 current ratio a year ago and by sizable working capital of more than $17 million. In view of a wide margin of earnings over dividends, it seems safe to assume that the recently established quarterly dividend of 25 cents per share is very well protected and in time may be improved. Hence the current yield around 6.3% is rather attractive and the time for sensible averaging may not be far away.

For Profit and Income

(*Continued from page* 389)

war, whatever the tax bracket. That is one of the reasons, not commonly appreciated, for the generally conservative relation of stock prices to earnings and dividends. Tax changes could conceivably become a major market influence next year, on the bullish side. The only possible change in present rates will be down. The only question is just when, and just how much.

Rail Equipment

Taking a look at the railroad equipment situation, what stands out is continuing acute shortage of freight cars, inadequate supplies of steel and some components, huge and still rising order backlogs. Total earnings of the industry will go higher before they go lower, and probably hold at advanced levels for a pretty extended stretch. Yet most of the stocks are nearer the year's lows than highs. Probably that is because they have always had, in most cases, a strong speculative flavor; and the spirit of speculation is not thriving. With respect to assurance of good profits and the duration thereof, the air brake and signal equipment end of the industry is in the best position, the car makers next and the locomotive builders last. Pullman and Westinghouse Air Brake — class as first-rate, with unbroken dividend stock records among the longest in any industry; but a more complete study with suggestions for a diversified stake in this industry will be contained in our next issue.

Sutherland Paper

Around 40, against bull-market high of 55¼, Sutherland Paper impresses this column as a relatively conservative growth situation, at a current yield of nearly 4.4%. Earnings roughly doubled from 1929 to 1937, and nearly doubled again from 1937 to 1946, when they amounted to $4.68 a share. They may top that this year. Now doing around $20 million of business a year, the company is far from small, yet small enough to leave plenty of leeway for further long term growth. The sole capitalization is 344,000 common shares.

Repeat

We have long thought that good oils offered perhaps **the** outstanding investment values in the market. We stil think so. They have held remarkably well on the market sell-offs, risen well on the recent rally. We have noted that the industry's supply-demand outlook was strongly favorable, regardless of any business recession. This is now being emphasized by shortage of gasoline in the mid-west, tight supplies in many other areas — even before the number of cars on the roads is back to normal. On the basis of assured good earnings and dividends for a lengthy period — probably for at least several years — oils are still among the most reasonably priced of all stocks.

Labor Saving Machinery

(*Continued from page* 383)

Cub (the smallest tractor). The company has led in the final development of both cotton-picking machines and the new sugar beet harvesting machinery. The picker will go into quantity production this year, at the Memphis plant. In 1946, Harvester built a limited number of the sugar beet harvesters which are expected to revolutionize the beet sugar industry (heretofore dependent on cheap labor, including migratory Mexican help).

Soil conservation is a top objective of Harvester machines and the company seeks to educate farmers on contour plowing and similar practices. The Evansville plant is producing a general line of milk coolers and low-temperature food storage chests. The company was outstanding in its policy of lowering prices this spring.

Deere is the second largest farm machinery producer, with tractors accounting for nearly half of sales, tillage lines about 35% and threshers and harvesters 20%. It specializes in the low-priced two-cylinder wheel-type tractor and recently has developed several additional implements for small farm use. The company has grown much faster than International. Its capitalization is perhaps not quite so conservative, but the financial position was very strong at the end of the last fiscal year — cash assets were nearly half of all assets. Earnings and dividends have been somewhat irregular. The large cash position now tends to give the common stock investment quality, which it lacked during the 1930s.

In the office equipment field, ***Remington Rand*** and ***National Cash Register*** are examples of progressive managements. Remington has built up a highly diversified line introducing important "visible index" (kardex) equipment. Two large modern plants have been acquired recently to manufacture business machines and the company is pushing its over-all program of research, development and process engineering. The company's automatic mico-film camera, "Film-a-record," is enjoying ever-increasing use for filming bank checks, department store sales slips and bills, hospital patients' records and business correspondence. The latest model includes many improvements such as Color-Stat, which assures clear copies from colored paper originals.

The company is a leading producer of multiple-head electric

shavers. The new commercial and industrial television camera, Vericon, permits visual supervision of hazardous processes at a safe distance, and instantaneous visual record communication. The company's rather low cash position and the leverage character of earnings detract somewhat from the remarkable earnings gains — share earnings jumped from 45c in 1938 to $7.12 last year.

National Cash Register does about 90% of the cash register business in this country, but is also an important producer of specialty accounting machines such as adding-typewriters, posting machines, and a payroll machine which sorts time-sheets and turns out checks. Earnings and dividends have shown considerable stability in recent years. While the company has been diversifying in other fields, its continued concentration in the cash register field may deprive it of dynamic growth possibilities, though of course foreign sales should show further gains.

Joy Manufacturing is the leading producer of mechanical loaders, chain conveyors, haulage and slope-belt conveyors, shuttle cars, drilling, cutting and other equipment, used principally in underground coal mines. Last year two other companies were acquired by merger, adding a complete line of trackless mining equipment and various labor-saving devices. Replacement parts and repairs are an important part of the business. The company has enjoyed extremely rapid growth, assets last year being nearly ten times those of 1938, and sales were stepped up at an even more rapid pace. Share earnings last year (the fiscal year ends September 30) were $3.29 vs. $1.42 in the previous year, and a further big gain is expected in the current fiscal year. The $1.80 dividend rate (jumped from last year's $1) includes extras. Rising wage demands by miners, as well as the big European demand for coal, seem to insure a continued strong foreign and domestic demand for mechanized mining equipment. European countries are far behind the United States in the use of such equipment.

Ex-Cell-O has retained a rather small number of shares in spite of its rapid gain in sales, resulting in sharp fluctuations of earnings and dividends. The cash position is relatively low, and the current ratio only fair. The company is an important maker of machine tools and airplane engine parts. It has added a new line of all-electric milk pasteurizers which are expected to prove popular. There is also said to be an increasing demand for Pure-Pak milk packaging machinery. Development of new lines will, it is thought, offset irregularities in machine tool production. The stock returns a good yield, but the dividend rate must be considered on the generous side.

Link-Belt is one of the strongest of the machinery companies. It has only common stock outstanding, and the cash position is above average. Earnings have been increasing consistently in recent years, and dividends have been paid without interruption since 1906 (the rate has recently been increased to $3). The company makes a diversified line of excavation and mining machinery, power transmission equipment, conveyor systems, etc. At the beginning of this year unfilled orders were about $60,000,000 or about a year's business.

Food Machinery Corporation is an outstanding "growth" company. Sales jumped from $8,000,000 in 1939 to $240,000,000 in 1945 but shrank to $50,000,000 in 1946. With higher profit margins and lower taxes however, share earnings remained above the $6 level. Dividends have been maintained on a conservative basis, resulting in a low yield. 1947 earnings are expected to be well maintained. The company is still adding new lines and the present $40-000,000 backlog of orders includes a substantial demand for pumps, sprayers and chemicals. New products include equipment for potato harvesting, processing foods in glass containers, filling frozen food cartons, fog fire fighting.

Automatic Canteen Company of America is a small but growing company, whose stock is listed on the Big Board. It has an exceptionally strong cash position for its size, and is engaged in automatic merchandising of candy, gum, nuts and beverages through coin operated machines. An electronic grill has been designed to vend hot sandwiches, and other projects include machines for selling milk, hot coffee and cigarettes. Machines are leased to 83 distributors covering a large section of the country. While sales were stimulated by the war, they were well maintained in 1946 and the company should have continued growth possibilities. However, dividends are somewhat liberal and the stock may have partially discounted anticipated near-term gains.

Evans Products specializes in patented devices for loading and shipping automobiles in railroad cars, loaders for use in cargo planes, etc. It also has a high-diversified list of labor saving devices and miscellaneous products. The company enjoyed good wartime growth and share earnings have gained sharply since 1940. Dividends were resumed in 1944 after a lapse of seven years. The current position at last year-end was below average, the current ratio being only 1.6 to 1.

American Machine & Foundry is an old-line leader in the machinery field. Its principal line is automatic machinery for making cigars and cigarettes. Since part of its equipment is leased, income and dividends (paid for 20 years) have been remarkably stable. In recent years the company has been diversifying in a number of new lines and last December acquired an automatic pin-spotting unit for use in bowling alleys. (Some disappointing delays in developing this device have occurred however.) After remaining relatively stable for many years, the company now appears to be entering a growth period. The financial position remains excellent. The stock usually sells at a high level in relation to earnings and dividends and hence has limited speculative appeal.

U. S. Hoffman Machinery is a leading producer of garment pressing machines, laundry machinery, vacuum cleaning systems, etc. The company has had a good growth record but cash resources have remained on the low side, and earnings and dividends have been irregular. The jump in earnings from $2.74 in 1945 to $7.31 last year doubtless reflected deferred demands for its products; the current backlog equals about six months' operations. The stock is conservatively priced, in relation to earnings and dividends, discounting a probable reduction in profits for the current year.

Bucyrus-Erie is the largest maker of excavating machinery and related tools and appliances, together with power units of all kinds used in excavating work. Excavators range from $\frac{3}{8}$ to 33 cubic yards capacity. The com-

pany has had a fine growth record, reflected in gradually increasing earnings. 1947 profits are expected to increase sharply compared with last year's $2.08, so that continuance of the present dividend rate appears reasonably assured. Unfilled orders are reported substantial and the cash position appears satisfactory. The stock seems reasonably priced in relation to anticipated earnings.

E. W. Bliss has had an irregular past record with a deficit in 1945, but with current earnings at a relatively high level (possibly $5-$6 this year compared with $3.40 last year). The order backlog represents over a year's normal business. The stock is a typical "leverage" issue. The company makes mechanical metal-working machinery, etc. It is believed to be the largest producer of mechanical presses in the world. Its products are used by a number of industries, and it is benefitting by the high rate of activity in the heavy industries.

Chain Belt, as the name indicates, produces chain and transmission equipment, construction machinery, conveyors, etc. The company has enjoyed a steady but not sensational growth, though share earnings have not gained proportionately. The stock does not appear outstandingly attractive in relation to past earnings and dividends, but the current price seems explained by the fact that earnings of about $4 a share have been forecast for the year ending October 31st, compared with only $1.46 last year.

Chicago Pneumatic Tool is a leading maker of pneumatic and electrical industrial machinery and tools, gas and diesel engines, etc. During the 1930s, the company made a poor showing, but wartime and postwar earnings have been excellent, permitting the company to improve its financial position. The $3 convertible prior preferred stock may interest some investors, (convertible into 1⅔ shares).

De Vilbiss is a leading producer of industrial spraying systems of all kinds. Sales have shown steady growth and the company is conservatively capitalized. This stock appears to occupy a medium position with respect to earnings and dividends.

Yale & Towne is a well-known New England producer of builders hardware, material handling equipment, etc. Dividends have been paid since 1899. Earnings this year should show improvement over last year's $2.12 which reflected the prolonged strike and other difficulties. The price of the stock reflects its investment standing.

New Trends in The Shoe Industry

(Continued from page 385)

tations for packers calf and kidskins and smaller advances for lighter weight hides of desirable grades. In the most recent week from June 7, to June 14, 1947, hides and skin showed an increase of 1.8 points which was the greatest advance of any of the 25 commodity indexes reported. For the year from June 15, 1946 to June 14, 1947 all commodities showed an advance of 32 per cent. Hides and Leather Products rose 35.3 per cent. There were only three other groups which gained more in this year—Foods, Building Materials and Semi-Manufactured Articles. All commodities, other than farm products and foods, advanced only 25.9 per cent.

Tanners and Leather Manufacturers

When price controls were lifted last October the leather manufacturers took a great many more imports of hides and skins. In the last quarter of 1946 twice as many such supplies came into this country as during the entire first three quarters of that year. A good volume of imports continues.

Allied Kid saw moderately higher earnings for their fiscal year ended June 30, 1946 and much higher income for the six months ended December 31, 1946 as the statistical table shows. An extra dividend was paid May 15, 1947. Amalgamated Leather, with better supplies of goatskins coming in, witnessed a big increase in earnings last year, with sales up 61%. Their April, 1947, dividend was increased to 20c.

American Hide & Leather lost money in their fiscal year ended June 30, 1946, partly due to strikes, but the first 9 months of their current year brought earnings of $2.00 per share vs. only $0.17 in the same months of the previous year on June 26 directors of the company declared a 50-cent per share common dividend, the first in the company's 48-year history. U. S. Leather, largest domestic tanners of sole and heavy leathers has suffered deficits for several years past, including the October 31, 1946 fiscal year. But, for the six months ended April 6, 1947 $1.32 per share was reported earned. Seton Leather, specializing in patent leathers has also done well, tripling its earnings per share last year.

Uncertainty over possible inventory losses is a recurring hazard in this highly speculative field —so even a mild recession later might prove bad for them. The stocks have broad movements and are suitable only for rank speculation in good markets.

Shoe Manufacturers and Chain Stores

The three largest shoe manufacturers, in order of size, are International Shoe, Endicott Johnson and Brown Shoe. All of them have been witnessing much higher income as shown by their latest annual and interim earnings statements reported in the accompanying table. Endicott Johnson set aside especially large reserves for inventories and contingencies or else even higher earnings would have resulted.

General Shoe Corporation, a producer of low cost shoes, maintains a good control over costs and has shown steady expansion in production. Florsheim concentrates on quality shoes for both men and women. Melville Shoe Corp., in addition to being an important manufacturer, operates an extensive chain of retail stores.

At present the shoe manufacturing companies are in a squeeze, as pointed out previously in this article, between higher hide prices, rents and wages, on the one hand—and the pressure from consumers, retailers and wholesalers for lower prices, on the other. The better trend of income seen last year may be reduced before the year is over, especially in quality lines where further price rise might be instituted thereby.

Aside from Melville Shoe Corporation, A. S. Beck, Edison Brothers, G. R. Kinney Company and Schiff Company are the leading chain shoe companies. They have all been sharing fully in the prosperity brought about by the filling of war-born, deferred demand for shoes, increasing supplies and higher prices.

In recent months, signs of price reductions have appeared to meet consumer resistence to high prices. However, volume is still

good and 1947 profits will probably not be much below 1946.

Shoe Machinery Companies

United Shoe Machinery Company is the largest producer of machinery for making footwear. It sells and leases its machines, as well as selling accessories. Its competitor Compo Shoe Machinery operates in a similar manner. The fortunes of these companies are tied to shoe production and so their outlook for the rest of 1947 and at least early into 1948 is satisfactory. The common shares of both these companies are more conservative than the shoe shares as a whole, and United Shoe Machinery, in particular, has investment aspects due to stable earnings and good record of continuous dividends since 1905. Pertinent statistics on both companies are included in the table.

It is possible that improved machinery may help the shoe manufacturers to cut their labor costs in the future, but, as United Shoe Machinery states, in war years their research division was devoted entirely to Army and Navy projects, so they have only in the past year been able to take up again their prewar studies. Reserves for contingencies set aside during the war will help finance these renewed researches. Compo, too, was disrupted by the war but they state that they are making some headway. The men's sole attaching conveyor and auxiliary equipment are now in volume operation with good results. Perfection of new adhesives has been announced.

Use of Plastic in Shoes

During the war a great volume of plastics were used in shoe production but apparently the industry did not do too good a job in its publicity, because shoe wearers came to regard plastics as only a temporary stopgap until leather again became available. As a matter of fact, plastics have certain advantages in themselves, and these are beginning to bring an increased demand especially for children's shoes. During the war some inferior products hurt the reputation of plastics, according to reports to us from plastics producers. Actually, the wearing qualities of vinylite plastics are excellent and producers of vinylite soles say they outwear leather for soles about three times over.

For soles and scuff-proof tips on children's shoes plastics are finding favor. They are also being used for women's shoes. Patent vinylite does not crack or peel like patent leather and has achieved some popularity. On the whole, however, plastics still account for only a small part of shoe production. The outlook is for a gradual increase in their use. Perhaps experience abroad may throw more light on the practicality of vinylite in shoes since reports say that 40% of the shoe production in the American Zone in Germany (now being produced there) is from this material, both for uppers and soles. Another factor of importance is the cheaper prices for plastics, which are going lower as volume expands. Higher prices may force increased use in lower priced shoes.

Market Action of the Shoe Group

As mentioned, the leather company shares are highly speculative and have wide, volatile swings. On the other end of the scale are the shoe machinery company stocks which have investment aspects. In between are the equities of shoe producers and retailers. On the decline since last May, they have not acted as well as the general market. However, in view of the prospects for continued demand and fair profit margins, issues such as Endicott Johnson, Mellville Shoe Corporation, General Shoe, Brown Shoe Company and International Shoe can be regarded as satisfactory speculations if purchased at a strategic level when the advice to buy is issued in the A. T. Miller market article which appears in each issue of our magazine.

A Realistic Approach to Corporate Finances Today

(Continued from page 366)

bonds while the other $2.5 billion was about evenly divided between new stock issues and long term bank loans. The remaining funds were obtained from retained corporate profits.

Important Shifts in Corporate Finance

These figures highlight the important shifts that have occurred in corporate financial positions, reflecting not only the return to peace-time business but, importantly, the impact of sharply higher prices on capital requirements and capital expenditures. To meet these needs, business made substantial use of the security markets and obtained in this manner the largest amount of financing since 1929; it also had to reduce drastically its liquid asset holdings in the form of Government securities, while expanding inventories and accounts receivable, with the result that general financial liquidity was markedly reduced.

These trends must be expected to be intensified this year as the impact of high prices will be felt more severly; there is little indication of any marked downward trend in the general price structure during the balance of 1947. Last year, amid much talk of record profits, corporations had to borrow heavily and sell additional stock in order to meet capital requirements. To the extent to which this occurred, record profits are not only transitory but in some instances at least illusory, for ultimately the additional debt assumed must be paid back—out of earnings.

Viewed in this light, earnings as currently reported can hardly

be regarded as "true" earnings. It is a thought worth pondering by investors who must realize that generally speaking, neither profits nor dividends can continue for any length at the peak levels obtaining today. Eventually the overstatement of earnings inherent in the current situation will have to be compensated for, quite apart from the normal fluctuatins of business as a determinant of profits. In appraising real earning power, the factors discussed in the foregoing deserve particular emphasis.

How Big Corporations Plan Vast Growth

(Continued from page 371)

degree of specialization in various forms of activity. One group of companies has concentrated on production of cloth, another on "converting" (designing patterns and selling printed cloth to fabricator), also there have been fabricating mills, finishing shops, etc.

During wartime cloth shortages, fabricators bought cloth mills to assure a continuity of cloth supply, while some cloth mills bought finishing mills to achieve wider profit margins. Such a type of merger, within an industry, is known as "vertical integration," as distinct from the "horizontal "mergers, where a company buys a concern making an entirely different type of product.

An outstanding example of "vertical integration" in the textile industry has been the rapid development of Textron, Inc., as a huge manufacturing company active in all phases of the textile industry, from manufacturing of rayon yarn, to the 'sewing" or finishing end of the garment business. During the last few years, Textron has bought dyeing companies, yarn mills, cloth mills, fabricating plants, and just recently acquired an English textile company (subject to approval by stockholders July 23).

Due to the special conditions of the last few years, earnings of Textron have leapt ahead. In 1946 the company reported earnings of $5.88 a share on the common stock, after setting aside $1 million for contingencies. In the early months of this year, the company was earning $1 a share monthly. More recently earnings have shown a considerable drop, due to losses in the finished goods end of the business, though cotton mill profit margins still are satisfactory.

Strong differences of opinion exist as to the economic soundness of verticle integration in an industry, particularly an industry with varied facets, such as textiles. The experience of Textron, and others, however, has indicated that, at least temporarily, under special conditions, large profits are possible.

Noma Enters New Fields

Mergers also develop, where a company can provide capital, management skill, sales organization or some other important factor, to make a success of another company, which has been having hard sledding because of lack of some such vital asset. An illustration may be found in the recent expansion of Noma Electric Corp. activities.

Originally in the comparatively limited field of manufacture of Christmas tree bulbs and other decorative lighting sets, Noma in a comparatively short time became a household name synonymous with Christmas tree lights, due to the sales genius of President Henri Sadacca and his associates.

Backed by substantial profits from success in the decorative light business, Sadacca looked about for other businesses to acquire. What were wanted were companies with good products, but lagging because of weakness in merchandising. Today Noma, in addition to its light business, makes and distributes wires, cables, sun glasses, stoves, refrigerators, home and farm freezers, heat control units, wooden and plastic toys, dolls, auto lights and other products. Reflecting acquisition of additional companies, Noma sales in 1946 jumped to $32.4 million from $13.4 million in 1945.

Successful entry into new fields by a company with ample capital, with management abiilty and with sales experience, is by no means new. Numerous instances can be cited, but an outstanding illustration is General Motors, which years ago started to diversify its activities and thereby add to earnings stability. General Motors is generally known to be the leading factor in the automobile manufacturing industry, but not so widely known is the fact that this company also is an important manufacturer and distributor of such varied lines as electric refrigeration equipment, air conditioning and heating units, home lighting and water systems, bicycle parts, aviation engines, gas and Diesel engines of various types including Diesel-electric locomotives for railroad use, electric motors for household appliances, etc.

Loew's in Music Publishing and Records

Even the big motion picture companies have been increasing their activity in new lines. For instance, Loew's, Inc., big motion picture producer and distributor,

has become one of the largest factors in the music publishing business, through control of Robbins Music Corp., which in turn controls seven of the leading music publishing concerns. Recently Loew's has embarked into the phonograph record business. Loew's can reproduce from the sound tracks of its musical films, provide and distribute popular music records at relatively low price. Loew's expects to be one of the biggest factors in the phonograph record business.

In some cases, mergers are believed by many to be the only way certain large industries can be saved from being forced under Government control and ownership. The coal industry is one example, the railroads another. The situation of both these industries is somewhat similar.

Coal Industry Needs Consolidation

In the case of the coal industry, hundreds of relatively small companies have been fighting each other, while John L. Lewis has been busy consolidating the workers into a big "trust" and forcing payment of higher and higher wages.

Recently there has been a trend toward consolidations in the coal industry. A few companies, such as Pittsburgh Consolidation Coal, have become relatively large concerns, as measured by size of companies in some other industries, but these large coal companies still produce only a small percentage of the total coal production in the United States.

Notwithstanding, the larger companies have been able to achieve sufficient operating economies so that they have been enabled to build up reserves for increasing safety of mine operations, also to finance research into new uses for coal. Jointly with some of the coal-carrying railroads, these companies have financed research which has resulted in development of a new coal-burning gas-turbine, which promises to be more economical to operate than the oil-burning Diesel engine, and which may arrest the trend from use of oil in railroad engines back to use of coal.

Similarly, Robert Young and others contend that only through mergers can the railroad industry meet the threat of competing modes of transport, and escape eventual bankruptcy of the industry.

Foreign Nations Do Not Fear Monopoly

Paradoxically, Americans, who are supposed to be worshippers of Big Business, appear to have almost a psychopathic fear about development of Big Business — and particularly that most dire of all bugaboos, Monopoly." This phobia about Big Business is not shared in most other countries.

In Europe, not only are national monopolies common, but "cartels" — price-fixing monopolies on an international scale—are accepted complacently, even in democratic countries such as Britain.

Right nearby, in neighboring Canada, "monopolies" exist, but few Canadians worry much about it. Canada has no anti-trust law, similar to that of the United States, though it does have an Anti-Combines Act, aimed mainly to prevent unfair business practices.

Sheltered behind high tariff walls, two companies produce practically all cigarettes smoked in Canada. One of these two companies produces the bulk of tobacco products, the other company is relatively small. At various times these tobacco companies have been prosecuted, and occasionally fined, but such cases have been on complaints of small distributors against "unfair practices" rather than on "monopoly" grounds.

One company, Aluminum Co. of Canada, produces all the aluminum in Canada, and is one of the largest aluminum producers in the world. A few years ago a small group of radicals obtained institution of a Parliamentary enquiry into Government tax exemptions granted to the Aluminum Co. of Canada to encourage expansion of productive facilities during the war. The enquiry found the tax exemptions fully justified. There has been no demand in Canada for prosecution of the aluminum company because it is a monopoly.

Similarly, all the banking business in Canada is handled by a handful of banks, which operate through branches all over the country. The bulk of the retail business is controlled by five or six companies, which operate large department stores and have a "monopoly" on the mail-order business.

In foreign countries, it has been found that in certain lines of activity, particularly where large capital investment is important, maximum efficiency, maximum research, lowest prices for the consumer, maximum export sales and resultant domestic employment, can be achieved when there is a consolidation and merger of competing companies into a relatively few large concerns. This still leaves opportunities in many other fields for the small concern.

Bigness Does Not Assure Profits

Parenthetically, it might be noted that Bigness alone does not assure maximum profits. Government surveys have revealed that on the average companies that are neither the largest nor the smallest in an industry have had the best profits record, perhaps for one reason because larger companies are most closely watched and regulated. Similar experiences have been noted in other countries.

It is clear, however, that in this country in the period ahead the merger trend will continue probably at an accelerated pace, providing no new legislative restrictions develop. Many of these mergers will strengthen the position of stockholders of companies involved, many make it more difficult for other companies that do not merge. Bnt even if mergers were to be prohibited, it appears highly doubtful that this could prevent collapse and bankruptcies of a high percentage of the newer companies in over-expanded fields.

As I See It!

(Continued from page 361)

but the situation is very tight and many are operating on a hand-to-mouth basis. Some concerns, such as Ohio Oil built up reserves in winter to anticipate heavy summer demand but supplies are still inadequate.

In the East, except for a few isolated spots, there will be no gas rationing according to spokesmen for Phillips Petroleum Company, Socony-Vacuum Oil and Sinclair Oil. Standard Oil of New Jersey and Pure Oil have an-

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On request on your letterhead, but without obligation, any of the circulars listed below will be sent direct from the issuing firm. Limit each letter to a request for one circular, giving your name and address.

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nounced no plans for rationing but indicate that they are watching the situation closely. On the other hand, apprehension has been expressed in the East regarding the heating oil outlook for next winter. A Standard Oil of New Jersey spokesman states that the company is not rationing gasoline but is already allocating fuel oil customers to 100% of amounts received last year.

So don't burn up any unnecessary gas on the roads, get your fuel oil tank filled early for winter heating . . . and let us try to see to it that Russia doesn't get a drop of American petroleum so badly needed for our own purposes.

Has Market Seen Bottom?

(*Continued from page* 363)

static earnings at times, as now; a lower valuation at other times as disturbing things happen or yields recede. The other contingency is that what was indubitably a bear market into mid-May in all truly representative indexes has yet to be completed. It is too early to be at all confident which it is. The next real downside test, after the summer rise has run its course, may tell the story, and do so within a matter of not too many weeks. Hence there is no change in our advice that average investors should maintain about a 50% liquidity.

—Monday, June 30.

Trend Of Events

(*Continued from page* 360)

who have closely studied the subject are advocating retention of the 38% tax upon corporate profiits but allowing a relative credit upon taxable income reported by shareholders. While this sounds simple and rational on the surface, The National Association of State Chambers of Commerce is out with a plan that would aid small ventures more substantially than large ones, because the latter usually are more adept at shifting their tax accounts around. This same report would alleviate double taxation for preferred as well as for common stockholders. Part of the National Association plan that seems to be meeting with a degree of approval by influential Congressmen, bears on credit allocations. Where the income tax rate is at lowest levels, say 16%, stockholders would receive a credit at this same rate, and the same thing would hold true at the 20% level, for instance. Such a plan, to be sure, would result in only partial relief from double taxation but it would be fair and simple to implement. But all of these minor suggestions seem unimportant compared with the real point at issue—the speedy elimination of the annoying and burdensome levy upon shareholders' private incomes. Other students predict that corporate tax reduction at this time would check, if not break the upward spiral in inflation. All said, it is to be hoped that when Congress reconvenes, prompt action will follow on this form of tax revision.

BOOK REVIEW

AMERICA'S NEEDS & RESOURCES
By J. Frederic Dewhurst & Associates
Published by
The Twentieth Century Fund
812 pages cloth, $5.00

This newest publication of the Twentieth Century Fund presents the conclusions of a survey on Needs and Resources which was started in 1943. It gives a picture of the past, present and future of our economic activity. The opinions reached by the various research groups are supplemented by 225 statistical tables and 42 graphs. The Twentieth Century Fund has received the cooperation of both government agencies and privately endowed statistical research groups. The Survey is divided into 6 parts, namely: I. Basic Trends, II. Consumer Requirements, III. Capital Requirements, IV. Government Costs and Foreign Transactions, V. Resource and Capacities, and VI. Summary. Estimates for 1950 and 1960 are featured. To quote Dr. Dewhurst, "These projections are merely attempts to show quantitatively what can be achieved with continuous high-level utilization of our resources and labor force." The appendix includes an explanation of the statistical technique employed in arriving at an intelligent estimate. It is the belief of this excellent survey that "America is fully equipped to outdo even her wartime production record in the decade 1950 to 1960, which indicates that if we can continue our past rate of growth through the next decade we can provide our people with still more goods and services than at the wartime peak, with less hours of work."